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Zhigulina Anastasiia

SPATIAL ASPECTS OF RETAIL DEVELOPMENT IN RUSSIA DURING THE TRANSFORMATION PERIOD AND THE LATEST TRENDS

PROSTOROVÉ ASPEKTY VÝVOJE MALOOBCHODU V RUSKU V TRANSFORMAČNÍM OBDOBÍ A JEHO NEJNOVĚJŠÍ TRENDY

Bachelor´s thesis

Supervisor: doc. RNDr. Bc. Jana Spilková, Ph.D.

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Declaration of Authorship:

I hereby proclaim that I wrote the bachelor thesis on my own and that the references include all resources and literature I have used. This thesis or its fundamental parts have not been used previously for acquiring another university degree.

In Prague, 21. 7. 2018

Signature ………………………

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Spatial aspects of retail development in Russia during the transformation period and the latest trends

Abstract

The aim of this thesis is to analyze and evaluate the retail development in Russia during the transformation period with a special focus on retail chains in Russia. What regions they focus on, how their expansion took place and whether there is a difference in expansion strategy between Russian and foreign retail chains. These are among the key research areas of this thesis. The top 6 retail chains in Russia have been selected as these represent several types of expansion strategy. The analyzed characteristics of retail chains are: the city and time of establishment in Russia, revenue, number and types of stores, region of presence including region with the biggest concentration of stores, etc. Methods of comparison and mapping are used in the analytical part of this thesis. The results show that the biggest concentration of retail chains, both of Russian and foreign origin, is in the Central Federal District. Foreign retailers prefer to start their business with a focus on the bigger Russian cities, whereas Russian retailers are trying to expand as much as possible throughout all Russian territory and may not always start business in the larger agglomerations in the Central Federal District.

Key words: retail, retail chains, Russia, trends

Prostorové aspekty vývoje maloobchodu v Rusku v transformačním období a jeho nejnovější trendy

Abstrakt

Cílem této práce je analyzovat a vyhodnotit vývoj maloobchodu v Rusku během transformačního období se speciálním zaměřením na maloobchodní řetězce v Rusku. Práce si klade několik výzkumných otázek. V jakých regionech se koncentrovaly? Jak probíhala jejich expanze? Existuje rozdílná strategie expanze mezi zahraničními a ruskými maloobchodními řetězci? Představeny jsou vybrané maloobchodní řetězce (top 6 v Rusku), které prezentují několik typů strategie expanze. Analyzované charakteristiky maloobchodních řetězců jsou: město a doba založení v Rusku, příjem, počet a typy prodejen, regiony přítomnosti řetězce a oblast s největší koncentrací obchodů. Práce v analytické části používá metody komparace a mapování. Bylo zjištěno, že největší koncentrace obchodních řetězců v Rusku, a to jak zahraničních, tak domácích, je v Centrálním Federálním Distriktu. Zahraniční maloobchodníci dávají přednost zakládání poboček v největších ruských aglomeracích a soustředí se na největší města, zatímco ruští prodejci se pokoušejí co nejvíce rozšířit po celém ruském území, a ne vždy začít podnikat v největších ruských aglomeracích či v Centrálním Federálním Distriktu.

Klíčová slova: maloobchod, maloobchodní řetězce, Rusko, trendy

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Introduction

Almost every day we get into contact with retailing when we want to consume different goods and services. Retail trade is a combination of entrepreneurial activities associated with the sale of goods and services directly to consumers and intended for personal or family use. Retail trade is the most important part of the system of commodity circulation, it accounts for more than half of all major trade funds. The level of trade and technological processes and trade services for the population largely depends on the state of development of the retail network.

Transformation of the Russian economy has affected all sectors and branches of the national economy, including significant changes in the sphere of goods and services circulations. The process of effective promotion of goods and services to the consumer has a determining influence on the scale and structure of production and on the level of consumption of the population. A special role in this process belongs to trading enterprises operating in the consumer market, since they largely determine the nature of the interrelationships between the production and the population.

The biggest retail chains in Russia have started their dynamic expansion in the 1990's, thanks to the development of the market economy and the application of free competitive trade. Modernization of the whole retail network and the creation of new types of sales unit is a slow process in Russia, however, it has significantly accelerated since the entry of foreign companies to Russian market.

Russia has particular traditions and culture that are difficult to compare directly with other countries. Models that work very well in Western Europe, Asia or elsewhere, do not work good in Russia, because it is such a different place, starting from climate or relief and finishing with its population density. Retail trade in Russia is experiencing many problems in its development. The increase of competition in the consumer market, caused by a sharp increase in the number of economic subjects on the market, decrease in the purchasing power of the population, and inadequate regulation does not allow Russian retail trade to develop more rapidly.

For successful development, Russia should find its own way in all fields of economy, thus also in retail. Further the regional aspects of the functioning, development, and location of trade enterprises are the least studied among the works in economic geography. This circumstance determines the relevance of the topic of the research in this thesis.

Retailing trends in the past few years have focused mainly on creating new business centres, reducing prices, increasing competitiveness and expanding relations with foreign partners. Gradually, retailing companies are pushing small entrepreneurial businesses out of the market and the retail sector as a whole becomes highly competitive. Retail chains are important players in this market and their role, not only in Russia, is increasing. This bachelor thesis deals with the situation in the retail environment in Russia from the 1990's and the role of retail chains in particular.

The primary goal of this bachelor thesis is to describe current retail trends, analyze the most successful retailing companies, to compare selected Russian retailing company (Lenta) to a foreign one (Auchan).

This goal sets out the need to solve the following tasks:

- to depict the development of the consumer market in Russia during the transformational period;
- to analyze trends in the diffusion and location of retail chains in Russia;
- to compare Russian and foreign retail chains in Russia;
- to sketch out the future direction of retail development in Russia.;

The object of the thesis is the biggest retail chains in Russia.

The subject of the study is a set of historical facts and location strategies of the retail chains in Russia.

The thesis works with these main hypotheses:

- Retail chains are concentrated in the Central Federal District of Russia.
- Retail chains with a larger number of stores grow faster than the ones with less quantity.
- There are differences in the spatial development strategy between foreign and Russian retail chains on the Russian market.

The thesis is divided into the theoretical and empirical part.

The theoretical part explains the basic concepts related to the issue of retailing and history of the development of the Russian market from the 1990's. In particular, it is a description of the trade, retail and current trends of retail in Russia. The leading Czech, Russian, foreign authors and Internet materials served as literature sources.

The empirical part of the thesis includes analysis of retailing on the Russian market. Attention is paid in particular to the analysis of retail businesses in Russia specifically to their placement, history, and strategy of the development. Companies that were analyzed were the six biggest retail chains in the Russian market by sales: X5 Retail Group, Magnit, Auchan, Dixy Group, Lenta, Metro Cash & Carry. These companies achieve good results in the retail market and are among the leading players on the Russian market and are developing relatively fast. The output of the analysis is the mutual comparison of the basic indicators, characteristics and localization strategies of the companies. The concluding part of the thesis will summarize the findings.

BACKGROUND & THEORY

The theory deals with trade and retailing, its typology, development in the world, mainly in Russia, and localization factors within cities. Another part of the theoretical background focuses on the process of foreign companies entering the Russian market.

I Theoretical conception of trade and retailing

The market was developing for many centuries. Development and specialization within the division of labor progressed gradually towards the development of the trade where the traditional exchange of goods and services was replaced by the more efficient exchange with money (Pernica 2012). As Pernica (2012) reminds, by separating the town from the countryside, there was a need for an interconnector that would mediate the exchange of goods and services between the city and the countryside. The first market units were being set up, dealing exclusively with the production of products and their exchange for money. Gradually, large cities became centers of business, and the concept of commerce was becoming more important.

Nowadays we can characterize the trade from several perspectives. It may be a certain activity consisting of the purchase and sale of goods. This form of activity can also be addressed by manufacturing companies, but usually, the product is changed before it is sold, which entails an organizational breakdown between buying and selling (Pernica 2012).

As per Pernica (2012), trade, as an entity or institution, plays an inherent role between production and consumption. In this role, business is an institution and its main activity is trading. In the context of this concept of trade, there is no change between the purchase and sale of products to alter or change their characteristics. The trade includes all the activities leading to the exchange, satisfaction of supply and demand, under negotiated conditions.

The importance of trade for social and economic development in any country and the tendency of its further development is obvious. Among significant commercial institutions, the retailing companies are the crucially important (Pernica 2012).

1.1 Functions of trade

With the development of business activities, the demands and needs of the individual participants of the business relations gradually evolved to the present level. These can objectively be regarded as generally recognized business functions (Pernica 2012):

- transformation - transformation of the production (supply) assortment into a commercial (customer) assortment;

- interoperability – process to overcome spatial differences between the place of production (supplier) and point of sale (customer);
- time - overcoming the difference between a time of production and a time of purchase of goods;
- shipping - process to ensure the quantity and quality of the selling goods;
- initiative - a function that primarily consists of influencing production and demand;
- payment - ensuring timely reimbursement to suppliers.

1.2 Retail

As Bednář (2008) writes in his dissertation, retail represents trade in the national and regional market, i.e. internal trade, including a set of goods destined for the final individual consumer. Customers are individual citizens and families. The sets of goods include food, clothes, needs for home and leisure, cars, etc. In the retail system, there are also purchases of small producers and craftsmen and peripheral buying of medium and large companies included.

Retail trade can be made in any form: it can be a trade in a specially equipped placement, personal sales, sales through television and the Internet. Retail is made up of sales assortment, price positions, readily available stock, suitable sale, marketing activities, etc.

Pernica (2012) acknowledges that in the past, there was retail trade between small businesses, which was due to the fact that almost every retailer was a separate business entity. As the human population evolved, retail also developed. Improving the standard of living of the population and the gradual increase in its revenues has led to an increase in population mobilization, population migration to cities and the growth of their needs, resulting in a significant increase and diversification of demand for goods and services (Pernica 2012). The final customer becomes the decision maker about what will be produced.

Pernica (2012) also mentioned that retail reacted to a trend of population development by retail concentration. Entrepreneurs have increased the number of their own sales outlets, the size of their shop formats. Within the retail concentration, sales expansion techniques were used, such as the purchase of other stores or entire companies, mergers between companies, or the expansion of capital through the entry of banking institutions into companies. The development trend of concentration continues until today (Pernica 2012).

The definition of retail given by Szcyrba is: an internationally understood retail trade fully equipped with all logistics facilities and a highly qualified information system with professional management (Szcyrba 2006, cit. in Pernica 2012, p. 8).

From the definition it follows that the retailing companies are often very strong in capital and carry out number of activities related to retail, for example: large retailing companies have their own wholesale, often hierarchical structure, own import component or stock, own road transport, training centers, advertising, and marketing component and, in particular, large sales units. They often set up a common shopping facility that provides the cheapest purchase (Pražská, Jindra 2002, cit. in Pernica 2012, p. 35).

By the concentration process retailers gained a direct influence on the final customer. They have the opportunity to influence the final price and scale of production. Traders get control over distribution channels, set up their own wholesaler, foreign representation, transport and started to apply modern management methods: optimal logistics, providing large purchases and the application of modern information technologies. With a time, retail companies are growing to the level of large companies that can offer customers large-format outlets, a high-quality wide assortment with the option of convenient, comprehensive and fast-priced purchases (Pernica 2012).

Bednář (2008) recognizes sales unit as a very important retail tool. The retail chain is a set of sales units aimed at implementing the goods to the final consumer. This set has its quality given by the organizing and the relative precision of the operating units as regards the assortment, type, and organization of the operation.

A retail network can be distinguished in terms of (Bednář 2008):

- time aspect of operation in a place or region (permanent, supplementary),
- spatial aspect of operation (stationary, ambulatory),
- settlement type where retail network operates (urban, rural).

The specific role is played by the location of retail units both freestanding and in clusters in the form of planned or unplanned shopping centers outside the compact city (Bednář 2008).

1.3 Sales unit

1.3.1 Criteria of sales unit typologies

Bednář (2008) claims that various variants of assortment operating specialization, its rate, as well as operational and construction solutions and sales policy, have created a wide variety of forms of supply and sales of goods and of the operational type of retail units. Sales units can be characterized according to various features. These can be primarily the structural and instrumental features.

Structural features (static and interchangeable with significant costs and impacts on operations and sales units) are:

- assortment profile,
- form of sale,
- placing the unit in the vicinity of the customer,
- size of the unit according to the size of the sales area, the number of employees,
- market management systems,
- building solution.

Instrumental features (dynamic, assuming rapid change and demanding lower investment costs) are:

- pricing policy,
- quality of the offered goods,
- a mix of services.

1.3.2 Sales unit typology

Main types of units within permanent stationary retail networks, which are generally recognized in European markets by Bednář (2008) are:

- specialized stores and narrowly specialized stores,

- convenience stores,
- department stores,
- specialized department stores,
- self-service grocery stores (supereta),
- supermarkets,
- hypermarkets,
- specialized wholesales,
- discount stores.

Specialized and narrowly specialized stores

The range of assortment of specialized stores is narrow and deep in terms of a certain assortment group or several subgroups. Price relations can be higher, especially because fast-moving goods have to cover the costs of selling goods with a lower frequency of demand. The sales costs can be further increased because of the range of provided services. Typically, these units are located in city centers, within regional shopping centers and as basic amenities of residential areas such as housing estates etc.

Convenience stores

Convenience stores are located mainly in the countryside and in the suburbs. Their assortment includes both food and non-food items, it is wide but shallow, it includes products of common consumption. The frequency of the demand has been determined by the character of a settlement and at the same time, the requirement for the proximity of the sales unit to the customer is reflected in high costs and prices.

Superetas

Supereta is a supermarket with a wide range of groceries with a retail space of up to 400 m^2. It also offers basic types of non-food goods of daily needs. It operates as a shop itself or as a department of bigger sales units. The main feature is spatial proximity to the customer. They are usually placed at airports, railway stations, near highways, etc., here the assortment is completed by the non-food range that corresponds to the place of operating.

Supermarkets

The supermarket is a shop with a full range of groceries and basic non-food goods, using a form of self-service supplemented by a few service sections with a retail space of more than 400 m^2. The upper limit of the sales area is up to 2,500 m^2. In total, about 5,000 to 10,000 commodities are food goods, and the share of industrial goods is the decisive criterion for differentiating from other types. A maximum of 20 % of the sales area for the non-food product range is considered. The placement of a supermarket is: alone in different parts of the city, in traffic hubs, as well as a part of commercial or regional shopping centers.

Hypermarkets

Localization of the hypermarket on the outskirts and outside the city is made possible by their independence on the offer of other sales units. The sales unit offers at one point food, non-food goods, daily, frequent and occasional supplies exclusively in the form of a self-service shop, in order to offer non-food goods to fast-paced goods. The lower limit of the space of hypermarket is 2,500 m^2. The upper boundary usually ranges from 15,000 m^2 to 20,000 m^2. Larger hypermarkets do not fit for everyday purchases, they have a limited offer and they suffer from high swings of a number of customers over the week. For these and other reasons, specialized and narrowly specialized stores can successfully work in the near vicinity of hypermarkets. Hypermarkets are located especially within the regional shopping centers.

Universal department stores

Universal department stores offer a wide and deep range of goods. They operate in the city centers and regional shopping centers, where they create so-called magnets. Significant differentiation from the hypermarket is the clothing range which gives the department stores the opportunity to be more profiled and to compete with discount-oriented units for which the clothing assortment does not meet the requirements. The sales area varies between 10,000 m^2 and 20,000 m^2.

Specialized department stores

Specialized department stores are mostly oriented on clothing range and associated with these services. Regard to assortment they can be used in city centers and regional shopping centers. Width and depth of assortment, services, form of sales and location are reflected in higher prices. The minimum size is 1,500 m^2 of sales area.

Specialized wholesales

They offer an assortment of large, complete sets of non-food goods, especially those with a fast-moving character. The size of the sales area varies depending on the character of the assortment, up to several thousand m^2.

Discount stores

Classic discount stores are the product of the US trade of the 1930’s. Discount rates may vary, so they can be divided into "hard" and "soft" discounts.

The main features of discount stores:

- offer of the quickest type of goods with high-frequency demand,
- limited range of items,
- self-service form of sale, offering goods from simple shelves, pallets, stacks,
- simple construction and equipment,
- locations on cheap land,
- purchase with suppliers in bulk,
- prolonged opening time.

1.4 Development trends in the retail chains

Bednář (2008) states that the world trends in the retail business show that large-scale sale units which are focusing on the largest offer of goods by self-service: supermarkets, hypermarkets, and specialized wholesalers have the largest share in the consumer market. They reflect current customers' demands for complex, fast and relatively cheap purchases. During the development of the retail, the division of activity between these broadband sales units and specialized sales units has stabilized.

Another trend that Bednář (2008) mentioned in his dissertation was discounting orientation of retail units. Apart from discount units such as "hard" and "soft" discounts, there is a certain rate of discounting orientation, even for large capacity self-service units.

Shop-in-shop is the third trend that Bednář (2008) mentions. With the help of this type of cooperation, companies can relatively easily approach a high number of customers in large-scale sale units or they can make their own offer at specialist wholesalers.

My thesis is focused on retailing chains, thus on stone store retailing. This type of retailer accounts to 90 % of all revenue in developed countries. Retail turnover in Russia was 35 % of GDP in 2017 (Movchan 2017). Store retailing is divided into food and non-food retail. I have concentrated on the biggest Russian retailers in food retail.

Szczyrba (2006) writes that food retail is the main subject of grocery trade. However, units that sell a certain range of non-food goods (especially commodities of daily and occasional demand) are also included in this category. Large quantities of goods are going through food retail at large average sales areas. Specialists include supermarkets, hypermarkets and other sales units selling large volumes of merchandise, partially with non-food range (Szczyrba 2006, cit. in Pernica 2012, p. 9).

1.5 Location of retail stores in cities

The suitable location of the shop is one of the most important factors to success. It is very important to choose the right placement for different types of retailers.

According to Limonina and Safina (2014), the location of retail stores in cities is influenced by the following factors:

- City-forming: the size of the city (population and territory), the density of the population, the functional zoning of the territory (industrial, transport, communal, settlements, residental quarters and other areas), the price of land, the placement of administrative, cultural, scientific and educational centers, sports complexes;
- Transport: the direction and intensity of the main traffic flows, modes of transport, the placement of transport hubs, the convenience of import and unloading of goods, the potential frequency of delivery;
- Social: time spent by buyers on the road to trade enterprises, service at the location of the enterprise (including parking of vehicles);
- Economic: return on investment, sufficient economic efficiency of the enterprise, the location of competitors' enterprises, specificity of consumer demand for the relevant goods.

The impact of the location of the store compared to previous years and now slightly weakened due to customer and internet flexibility. The Internet has completely changed shopping habits. Online shops have expanded shopping opportunities without having to visit a stone shop. The change of retailing to online business has been the biggest change over the past twenty years (Kotler, Armstrong 2001).

Online retail in Russia is developing dynamically and is covering new segments. Delivery of products, however, prevails so far only in large megapolises. According to the Ministry of Industry and Trade, the segment of online trade in Russia currently accounts for 3-4 %, from which only 1 % products of the total sales of goods, but it shows a steady growth of 15-20 % annually (Bakharev 2018). The biggest retailers in Russia actively include online shops in their structure of the business. As practice shows, trends from Europe come to Russia with a delay, in 2016 United Kingdom already had 17 %, Germany 14 %, France 9 % share of online trading (Marketello, 2016).

2 History of Russian retail from the 1990's

2.1 First stage

Monin (2010) reports that in the 1990's, the development of modern retail in Russia echoed the experience of the Western countries of the 1960's. There, when retailers realized the need to promote their own brands, the association in the industry accelerated. But to this point the Western countries went for about 40 years (Russia less than 20), to reach the maximum concentration it took another 30 years. In 2007 in Germany, the 5 largest retail operators controlled 65 % of the market, in the UK 4 chains - more than 70 %, in France the 5 largest chains – 85 %, in Denmark the two leading chains – 60 %. In Russia, in 2007, the share of modern formats in the food retail sector was only 32.6 %, while the share of the top five companies was about 5 % (Monin 2010).

The retail trade in food worldwide remains largely a national or even a local industry. Only about 10 % of the global retail market is occupied by transnational corporations. The most active on foreign markets are the companies WalMart (USA), Carrefour and Auchan (France), Metro Aldi and Schwarz Group (Germany), Delhaize (Belgium), Ahold (Netherlands), Tesco (Great Britain). Some of them have already appeared in Russia (Monin 2010).

As Schnorr (2013) writes in her research, the first stage of retail development occurs at the beginning and middle of the 1990's of the 20th century. Active liberalization and trade reform caused the emergence of trade formats of foreign origin, which were targeted at buyers with high incomes. Gradually, there was a need and opportunities for the emergence of more economical formats (discounters, supermarkets). Schnorr (2013) characterizes the initial stage by a low level of knowledge of sales technologies among managers, the struggle for market space by the non-state and municipal sector, the weakness of the wholesale link, the low level of solvency of the population and the flourishing of unorganized trade.

Monin labeled the first stage of the development of the Russian market as a "Free wild market". There are several reasons why:

Liberalization of consumer prices was carried out on 02.01.1992 under the Presidential Decree "On measures for the liberalization of prices" of 03.12.1991, No. 297. As a result, 90 % of retail and 80 % of wholesale prices were exempt from state regulation, except for the most socially significant consumer goods and services (bread, milk, public transport, etc.).

The prices in the stores grew indefinitely, according to experts: for 1991 - by 160 %, for 1992 - by 2,500 %. Inflation destroyed the activity of the population, left enterprises without working capital. In addition, the collapse of the Soviet Union led to the severance of many economic ties. Difficulties were with raw materials, and with the sale of products. The delay in payment of wages became the norm. There was hidden unemployment when enterprises did not fire workers but sent them on unpaid holidays. People were forced to seek casual earnings.

Monin (2010) describes the situation as exacerbated by the fact that state enterprises simply did not know how to trade in a free market, did not react to changes in market demand. Directors were in habit of waiting for state subsidies. The structure of the Russian economy, inherited from the USSR, had monstrous distortions towards the production of military equipment. A small business, relatively recently legalized, was in its infancy (Monin 2010).

2.2 Second stage

The second stage covers the period from the mid-90's. until the mid-2000's. In this period the consumer market was gradually saturated with goods, there was an increase in the income of the population, but the share of sales of unorganized trade was still high; there was a concentration of own financial resources, there was an opportunity of accessing credits of banks with the purpose of expansion and capitalization of trade branch; entrepreneurs acquired experience in sales, mastered the system of bonuses, skills of promotion of goods, advertising, etc.; there was a gradual revival of industry, the rejection of barter schemes, there was a process of formation of the middle class; there was a need for civilized trade and modern formats (Schnorr 2013).

In 1993-1994 throughout the country small-scale wholesale stores of cash & carry format began to open. The goods in them were sold only in packages and not in pieces. The success of the new format stores in 1995 gave rise to a boom in small wholesale markets. Only in Moscow for a year they multiplied 10 times. People gladly began to buy products for a week ahead. Later this habit allowed hypermarkets to become popular quickly (Monin 2010).

On the basis of Soviet supermarkets, a food retail chain was born. First became the "Seventh Continent", opened in April 1994 in Moscow. Three stores worked for 24 hours a day and maintained the maximum possible product range. For today, the owner of the "Seventh Continent" left the retail business and the rights to rent stores will be given to X5 Retail Group, ABC of Taste and Lenta (Demidova, Parfentieva, Pastushin 2017).

In the second stage, all the biggest and the most successful retail chains of Russia were found or started enterprising in Russia: X5 Retail group (1995), Magnit (1994), Auchan (2002), Dixy group (1992), Lenta (1993), Metro Cash & Carry (2000).

According to the consulting company A. T. Kearney, which annually publishes the global index of retail development (GRDI), Russia ranked around the first places among developing countries in attractiveness for the entry of world retail chains. In 2003-2004, Russia ranked first in the ranking, by 2007 it dropped to the third after India and Vietnam and in 2015 it has the 21st position (Ischenko 2015).

The 1998 crisis caused new changes in trade. There was a sanation from non-viable organizations of trade. Trading chains, in contrast, have largely strengthened their positions. It becomes urgent to open stores of the discounter format. The most popular chains are discounters "Kopeika" and "Magnit", the opening of which took place in 1998. In 1999, there were stores of a similar format for the chains "Pyaterochka" and "Dixy". Schnorr (2013) writes that according to expert estimates, the share of chain trade annually increased at least twice and began to play a statistically significant role in the overall value of the trade.

Since the level of solvency of the population was relatively small, food chains prevailed among trade chains. The most popular and developing format was still the discounter, but stores and other modern formats were opening: supermarkets, hypermarkets, convenience stores, shopping centers. In large cities, the chain retail gradually displaced wholesale markets and multi-disciplinary small shops from the consumer market, the trade sector was becoming more civilized.

The ongoing positive changes in the consumer goods market and in the economy as a whole led to the arrival of global retailers. Point-of-sale activities for the development of the domestic market transnational retail corporations began with the cities of Moscow and St. Petersburg. In 2001, the first Metro Cash & Carry stores were opened, in August 2002 appeared the first Russian store of the Auchan chain.

2.3 Third stage

The third stage covers the middle of the first decade of the new century to the present. In Schnorr's opinion, at this time, the most significant, pivotal changes are observed in Russian trade. This time it were not only quantitative but also large-scale qualitative, structural, systemic transformations of the Russian trade space, which are reflected in the manifestation of the following current trends and features of the formation of chain retail that are interrelated.

Gloyan and Cherney (2016) claim that retail trade was one of the most dynamically growing sectors of the Russian economy. This is evidenced by the growth rates of retail turnover during 2003-2008 which are almost twice higher than the GDP growth rates in the same time.

In 2009, the situation in the food retail market changed for the worse. The drop in household incomes has negatively affected the structure and size of consumer demand. So, in 2009, the retail turnover, including the turnover of food products, in Russia decreased by 5.5 % compared to the same period of 2008, which in a compartment with a six percent inflation means a serious decrease in demand for food (Gloyan and Cherney 2016).

Despite the fact that in 2009-2010 the attractiveness of the Russian consumer market has decreased, it continues to retain the considerable potential for foreign investors. At the same time, Russian consumers prefer modern format stores to traditional sales units.

Gloyan and Cherney (2016) say that in 2015, a significant decline in crude oil prices and a significant devaluation of the Russian ruble, as well as sanctions imposed on Russia by some countries in 2014, continued to have a negative impact on the Russian economy. Interest rates in rubles remained at a high level as a result of the Bank of Russia raising the key rate in December 2014, with a subsequent gradual downgrade in 2015. The combination of these factors has led to a decrease in the availability of capital, an increase in the cost of capital, an increase in inflation and uncertainty about economic growth, which may, according to Gloyan and Cherney (2016), in the future negatively affect the financial situation, the results of operations and economic prospects (for comparison of key indicators see table 1).

Tab. 1 – Key indicators of trade in Russia and selected developed EU countries

Indicator	Russia	Developed countries EU	Gap (times)
Modern retail space (m^2/th. people)	73	>500	> 7 times
Share of modern formats	35 %	>70 %	>2 times
Indicator	**Russia**	**Developed countries EU**	**Gap (times)**
Share of 5 biggest companies (rate of consolidation)	11 %	>60 %	6 and more times
Share of distance trade	1,8 %	>5 %	3 and more times

Source: Gloyan, Cherney (2016), s. 5
*(Developed countries EU – Germany, Great Britain, Norway etc.)

Gloyan and Cherney (2016) claim that until recent time, the regulation of the trade sector in Russia was characterized by a low degree of government intervention (see also table 2):

- in the process of interaction between producers and trade organizations;
- the lack of mechanisms to protect the domestic market from foreign retail companies;
- lack of price control for the majority of commodity items;
- lack of environmental control requirements for trade organizations;
- lack of attention to training issues of the workforce;
- lack of regulation of wholesale and distribution companies;
- significant delegation of authority to work with the industry to the regions.

Tab. 2 – Problematical issues of the trade industry in Russia

Inadequate efficiency of government's regulation	-Inadequate consistency of the existing regulatory system of trade relations -Redundancy of law regulation -Abuse of local authorities by their power
Inadequate level of development of infrastructure	-The lack of retail and warehouse facilities, high prices for renting, real estate and communications -The lack of transport and trade infrastructure -Insufficient capacity of customs clearance points at the border, liquidation of customs clearance points inside the country -Weak economic relations between producers and trade organizations, inadequate level of development of cooperation
Low attractiveness of particular territories	-Low level of income per capita and low level of population density in some territories of Russia -Weak development of infrastructure and logistics in remote areas
Shortage of labor force	-Low qualification of staff at all levels -The lack of personnel
Problems of development of small business in trade	-Presence of administrative barriers in the organization and activities of small businesses -Shortage of financial resources -Complexities in the realization of the right to buy out leased premises -Problems of connection to utilities -Low level of infrastructure and weak development of franchising

Source: Gloyan and Cherney (2016), s. 6

Such a regulatory policy has led to a number of both positive and negative effects both for the industry itself and for consumers and the state. For example, the lack of strict regulation, on the one hand, contributed to the high investment attractiveness and rapid development of the industry, and on the other, led to the emergence of high entry barriers to regional markets, expressed in protectionist measures by the administrations of the regions (Gloyan, Cherney 2016).

High uneven development of the sector by words of Gloyan and Cherney (2016) led to a strong disparity in the availability of modern formats of retail space, price levels between different regions.

Chaotic development of municipalities has led to such problems as deterioration of the historical appearance of cities and a decrease in throughput.

3 Internationalization

It was not initially expected that retail units and operations could be successfully exported from one country to another. Bednář (2008) writes that with a time, the traditional understanding of retailing as a locally and culturally bounded activity has changed in its sophisticated way. According to Bednář, over the last decade, the whole world has gradually become one single market in retail business. The beginnings fall into the early 20th century, although this international application was not at first too common. There are some factors that have an impact on the entrance strategy for transnational retail chains (Table 3).

Tab. 3 – Factors that have an impact on entrance strategy for transnational retail chains

Characteristics of the home market	Characteristics of the foreign market	Orientation of the transnational chain
competitive market situation in the market political environment economical environment	political stability condition of economy regulation of a market competitive environment opportunity for investment	sector (assortment structure) management

Source: Bednář (2008), s. 21

Bednář (2008) is describing the development of the international activity of retailers by 3 stages:

1. The first stage mostly is a result of difficulties on the original market. The necessity of securing the development of the company forces businessmen to do foreign business. International expansion takes place predominantly in neighboring states, where there are the same or similar market environment and the consumers' claims.
2. The second stage is still characterized by certain caution, but the number of foreign parties is growing. Geographic or cultural proximity is still important.
3. The third stage puts the main emphasis on market opportunities in countries.

Pushkareva (2007) writes that there are several key marketing strategies:

1. The strategy of the pioneer.

This strategy is typical for a new product or promotion of a product on a still undeveloped market.

2. Competitive strategy.

When implementing this strategy, the advantage over other firms is achieved by maximizing the rapid development of new segments and creating new distribution channels. The strategy is aimed at achieving the optimal characteristics of the proposed product, exceeding the parameters of the previous products and technologies.

3. Offensive strategy.

At the mature market stage, the company often passes from the strategy of aggressive growth to the protection of the positions won. The leader takes the lead in setting the pace of innovation: developing new products and promising models, using the latest technologies, developing new market segments and distribution channels. It is planned to expand the range and release of such goods.

4. The strategy of defense.

The defense strategy involves creating barriers to protect manufactured goods and technologies, but passive protection (advertising campaign or pricing policy) will not save products from the inevitable obsolescence caused by the development of the market.

5. The strategy of reduction.

Sometimes company recognizes that cannot protect all of its products, and in this case, it can decide not to defend the individual positions (where its goods and services do not have obvious advantages) but concentrate resources on supporting the remaining markets.

6. The strategy of leadership.

Candidates for leadership are companies that are eager to outperform the leading producer at the moment and take his place. To attack the dominant company is the easiest way in the initial stage of market development when the pioneer company has not yet managed to go beyond its innovative niche and is not able to resist the determined actions of the competitor.

7. The strategy of development of new segments.

The growth of the market is mainly going by the emergence of new consumer segments. Usually, at an early stage of market development pioneers manage to master only a relatively small part of it. Therefore, the development of new markets is almost always relevant and seems to be a profitable position of any form, even with low potential.

8. The strategy of innovation.

The essence of this strategy is to give to the goods new qualities that provide superiority to the products of market leaders.

9. The strategy of a single niche.

The strategy of one niche is more viable at the stages of the emergence and growth of the market, but as the maturity stage of the market sets in, the realization of this strategy becomes more complicated.

Bednář (2008) writes that the international activity of retailers has begun to emerge more clearly in the 1920's in the Western Europe, which is characterized by proximity to countries, similar consumer and cultural conditions and the removal of duty barriers. This activity is steadily rising, and since the 1970's it started to grow between continents. In the 1970's and 1980's, more and more retailers continued to direct their business activities outside the home markets.

Coe and Wrigley (2007) acknowledge that during the late 1990's there were big changes in the intensity of retail foreign direct investment into the emerging markets of Central and Eastern Europe, East Asia and Latin America. Group of retail transnational corporations, which mostly were food and general merchandise retailers and also mostly Western European firms (exception - Wal-Mart and Costco) rapidly expanded in those markets, but in the same time, they were putting into place extensive and closely managed regional and global sourcing chains (Coe and Wrigley 2007). Companies had very convenient conditions to enter these markets because Western retail markets were consolidating, in already mature markets formed a group of leading companies, which were able to increase core-market scale and give cash flow for investments in new perspective emerging markets (Coe and Wrigley 2007, Wrigley 2000). The process was made easy because of access to low-cost capital: debt financing for expansionary growth could be raised very cheaply in Europe and North America in the low-inflation environment of the late 1990's, and equity financing could also be secured with relative ease (Coe and Wrigley 2007).

Russia in the 1990's had the highest inflation in its history. In the table (Tab. 4) we can see how weak the ruble was, which was certainly another point why it presented a good period to enter the Russian market.

The largest retail chains such as Auchan and Metro began to enter the Russian market after the collapse of the USSR.

Tab. 4 – Ruble-dollar exchange rate during the 1990's.

2002	30,12	
2001	28,17	
2000	27	
01.01.1999	20,65	
15.09.1998	8,6707	Maximum outflow
10.09.1998	15,7724	The beginning of low tide
09.09.1998	20,8250	Maximum post-default tide of the dollar
16.08.1998	6,29	The day before the default
1.01.1998	5,6	The denomination of the ruble from 1.01.1998
1997	5562	
1996	4662	
1995	3623	
11.10.1994	3926	The Black Tuesday of 1994. For one day, the dollar rate increased from 2,833 to 3,926 rubles per dollar
01,01.1994	781	
1993	417	
31.12.1992	414,5	
01.07.1992	125	Initiation of the free exchange rate of the ruble
24.06.1992	0,5622	
01.01.1992	0,5549	
1991	0,56	The commercial rate of the State Bank in April 1991 was 1.75 rubles per dollar, and the rate of the black market was 30-33 rubles.
1990	0,607	

Source: analytical newspaper – Anaga.ru, 2018

In spite of all the positive aspects of entering Russian market, under the influence of the process of globalization, it is interesting to note that foreign companies do not have a leading position in the market. One of the leading trading chains of the world WalMart was interested in the Russian market for several years, but until now it is not represented on the Russian market. Moreover, there are examples when foreign food chains that had been working in Russia for several years, left the country. For example, the large French chain Carrefour in 2009 opened 2 stores in Moscow and Krasnodar, a year later they announced their closure. As Limonina and Safina (2014) write, foreign companies are more actively developing at the more capacious and profitable markets of China and India. They also present the main factors that prevent more active penetration of foreign capital in Russia are: infrastructure difficulties (underdevelopment of the road chain, lack of quality storage facilities); the complexity of bureaucratic procedures in opening and doing business in Russia; high competition in the largest cities of the country and insufficient demand on the periphery.

Bednář (2008) says that the causes of failure are explained by the two basic perspectives. In the first instance, it is so-called "Industrial Organization" (IO), focusing on external causes of failure, failure to enter the retail chain on the foreign market is issued as a sacrifice of an outside environment without an influence of inefficacy or inefficiency decisions and management operations. The other perspective, referred to as "Organizational Studies", attributes the decisive role to management failures either in the form of its inappropriate unresponsive strategy or on the other hand, the lack of willingness or the ability of management to appropriately react and decide about a reversal of bankruptcy caused by external influences.

Dawson (2007) explains why foreign retail chains are not so widely represented on the Russian market. In his analysis of the 100 largest retailers in the world Dawson notes that since the late 1990's, the largest retailers have focused on limited markets and increased market share in these markets, and the firms at the bottom of the top 100 retailers that continued to expand to different countries from the late 1990's and so on (Coe and Wrigley 2007, Dawson 2007). For less developed chains it is even more difficult to enter the Russian market due to a lower level of resources. Russia is relatively far, has a different culture and habits.

As for current situation in Russia, during last years, mainly a reduction in the number of new players who are ready to work in Russia takes place. There are several reasons for this that were mentioned in Levitskaya's article: difficult economic situation, a twofold drop in the exchange rate of the national currency, a decrease in the purchasing power of the population, imperfect and contradictory legislation, economic instability, a very complicated tax system. The close connection between business and politics has a negative impact on the transparency of business, especially at the local level (Levitskaya, n.d.).

Despite all the difficulties Auchan and Metro Cash & Carry entered the Russian market in 2002 and 2001 respectively. First stores these companies opened in Moscow and Moscow region.

Panfilov and Chernovolov (2006) write that almost a quarter of all retail sales in Russia takes place in Moscow, so the concentration of chains on the Moscow market is currently very high, and most metropolitan retail chains have either begun or are planning to expand into other regions. The increased competition in the capital market, the limited and high cost of land and rental rates force the companies to pay attention to the development opportunities in other Russian cities. Large retail chains try to use competitive advantages in a fight for market share in a regional trade to gain a foothold in the local market, while the level of competition is not high enough, especially given the fact that several large global retailers have plans to enter the Russian market.

EMPIRICAL PART

4 Characteristics of the most successful retailers in the Russian market

4.1 X5 Retail Group

X5 Retail Group is a leading modern Russian retail company. It creates, develops and manages a portfolio of brands of chain stores, seeking to satisfy all groups of Russian buyers. This chain is a large and stable business that emerged more than 20 years ago from an entrepreneurial initiative to build in Russia a company of modern retail trade, similar to the best world practices (X5.ru 2018a).

The history of X5 Retail Group dates back to 1995, when the Alpha Group founded a trade chain “Perekrestok” and opened the first shop in Moscow in the same year (X5.ru 2018a).

X5 operates convenience stores under the brand "Pyaterochka", supermarkets under the brand "Perekrestok", hypermarkets under the brand "Carousel", as well as convenience stores under various brands (X5.ru 2018c).

Chain of Pyaterochka stores in the end of 2017 has 11,225 shops with the average retail area of the store of 394 m^2. Share in net retail revenue of X5 Retail Group in 4Q of 2017 was 77 %. Shops have around 4,500 items of goods (X5.ru 2018c).

Chain of Perekrestok stores in the end of 2017 has 638 shops with the average retail area of the store of 999 m^2. Share in net retail revenue of X5 Retail Group in 4Q of 2017 was 15 %. Shops offer around 10,000-15,000 items of goods (X5.ru 2018c).

Chain of Carousel stores in the end of 2017 has 93 shops with the average retail area of the store of 4,143 m^2. Share in net retail revenue of X5 Retail Group in 4Q of 2017 was 7 %. Shops have around 15,000-20,000 items of goods (X5.ru 2018c).

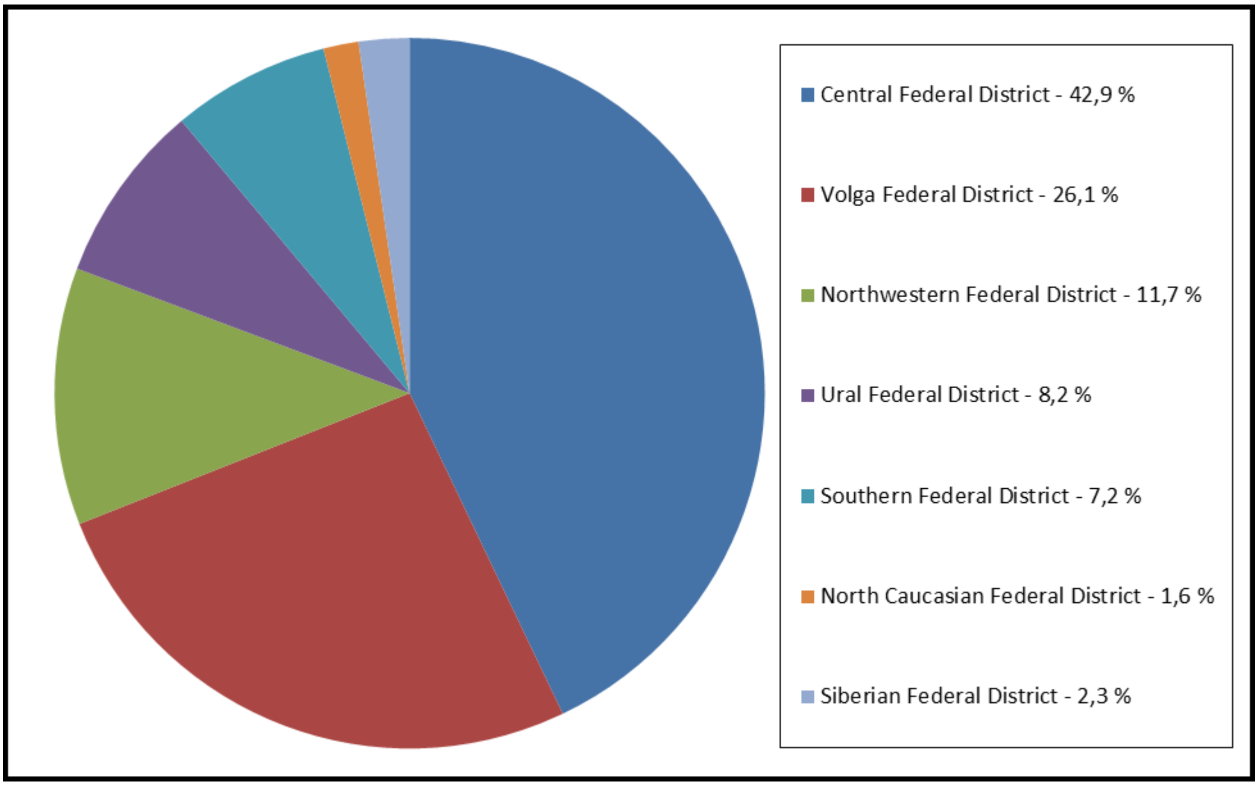
Tab. 5 – Number of X5 Retail Group shops

"Pyaterochka"	11,225
"Perekrestok"	638
Carousel	93
Convenience stores	165
Total	12,121

* Information of 31.12.2017
Source: X5.ru, 2018b

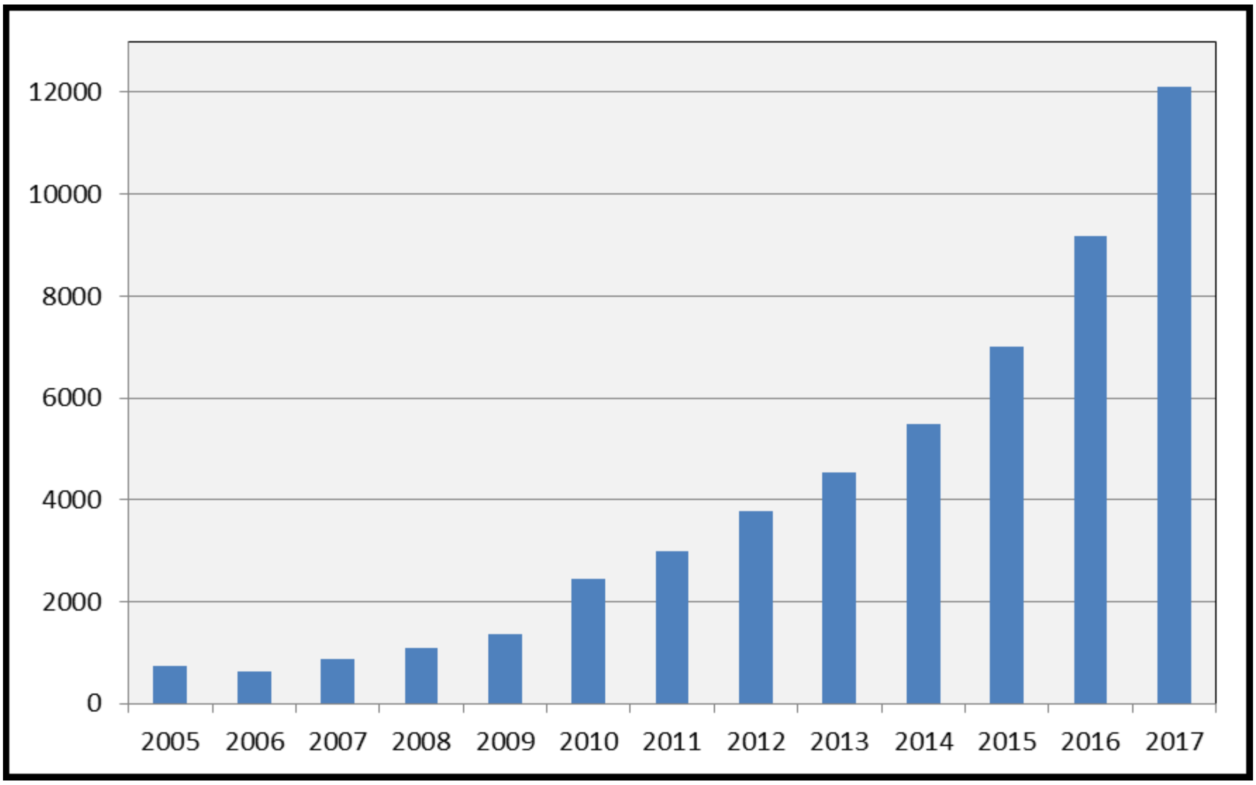
The company is represented by chains of various formats in 7 of the 8 federal districts of Russia. Trading chains and distribution centers X5 Retail Group are mostly located in the European part of Russia. They are located in 63 regions of the Russian Federation on the territory of 7 federal districts (X5.ru 2018b).

Figure 1 – Geography of X5 Retail Group presence on the territory of Russia in 2017



Source: own calculations based on data taken from the official website of X5 Retail Group: X5.ru, 2018b

Figure 2 – Number of X5 Retail Group stores in Russia during 2005-2017



Source: own calculations based on data taken from the official website of X5 Retail Group: X5.ru, 2018a

X5 strives to become the recognized leader of the Russian market of grocery retail and the first company which Russian costumers would choose (X5.ru 2018d).

The main directions for achieving this goal are (X5.ru 2018d):

- Multi-format operating model.

It allows to combine a large scope of the company and flexibility in management, provides growth by adapting the value propositions of each chain and the entire portfolio of brands to the needs of customers and market trends.

- The best value proposition.

Each trading chain manages its value proposition, adapting it to the current needs and preferences of its segment of customers, providing traffic and best-in-class sales density.

- Organic development.

For X5 Retail Group, attention is drawn to the relatively low level of penetration of modern trade, compared to other countries, and a high level of fragmentation of this sector, the acceleration of the opening new stores and the growth of retail space has a leading role. Company will accelerate growth also through tactical and strategic merger and acquisition of existing retail space, promoting both leadership in the current territories and the emergence of new regions.

- High efficiency of operations and investments.

Steady success in achieving strategic goals will be achieved due to the achievement by each retail chain the top in its segment performance indicators: in category management, in procurement, in logistics, in management of stores and working capital, and capital investments.

- Leading innovation.

Innovations mean an active management of value propositions for buyers, creation of new offers, as well as deep understanding of customers and application of leadership technologies.

- Strong corporate culture.

Company will follow the principles of corporate culture X5: customer orientation, the best result, continuous development and teamwork.

4.2 Magnit

The chain of stores "Magnit" is one of the leading retail chains for food products in Russia.

The company's history started on 5. 3. 1994, when its current owner Sergei Galitsky founded a company for the trade in household chemicals. The first "Magnit" store was opened in 1998 in Krasnodar.

The company is focused on customers with different income levels and operates in different formats: a convenience store, a hypermarket, a Magnit Family store and a cosmetics store.

"Magnit" is the leader in the number of food stores and the territory covered by their location. The company's revenue for 2017 amounted to 1,14 trillion rubles.

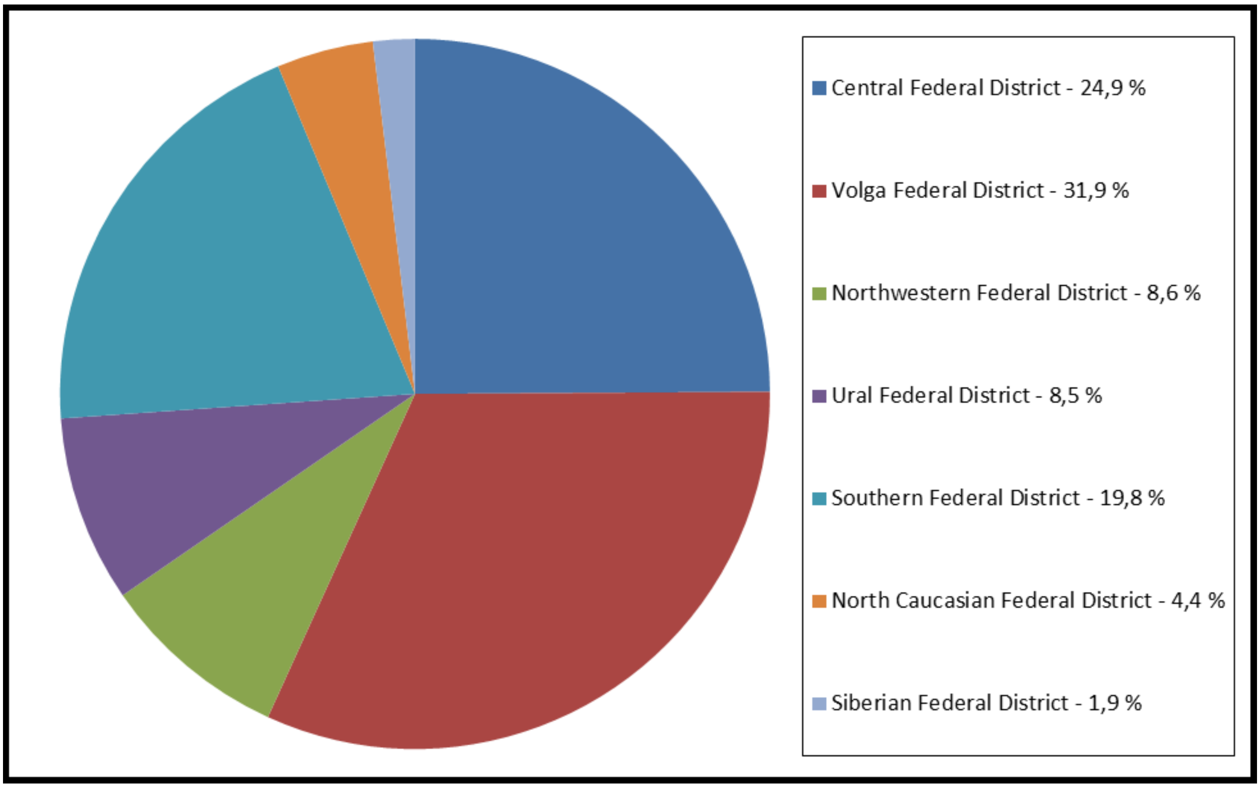
Tab. 6 – Number of Magnit shops

Convenience stores	12,125
Hypermarkets	243
Magnit Family	208
Magnit Cosmetic	3,774
Total	16,350

* Information of 31.12.2017
Source: Magnit-info.ru, 2018a

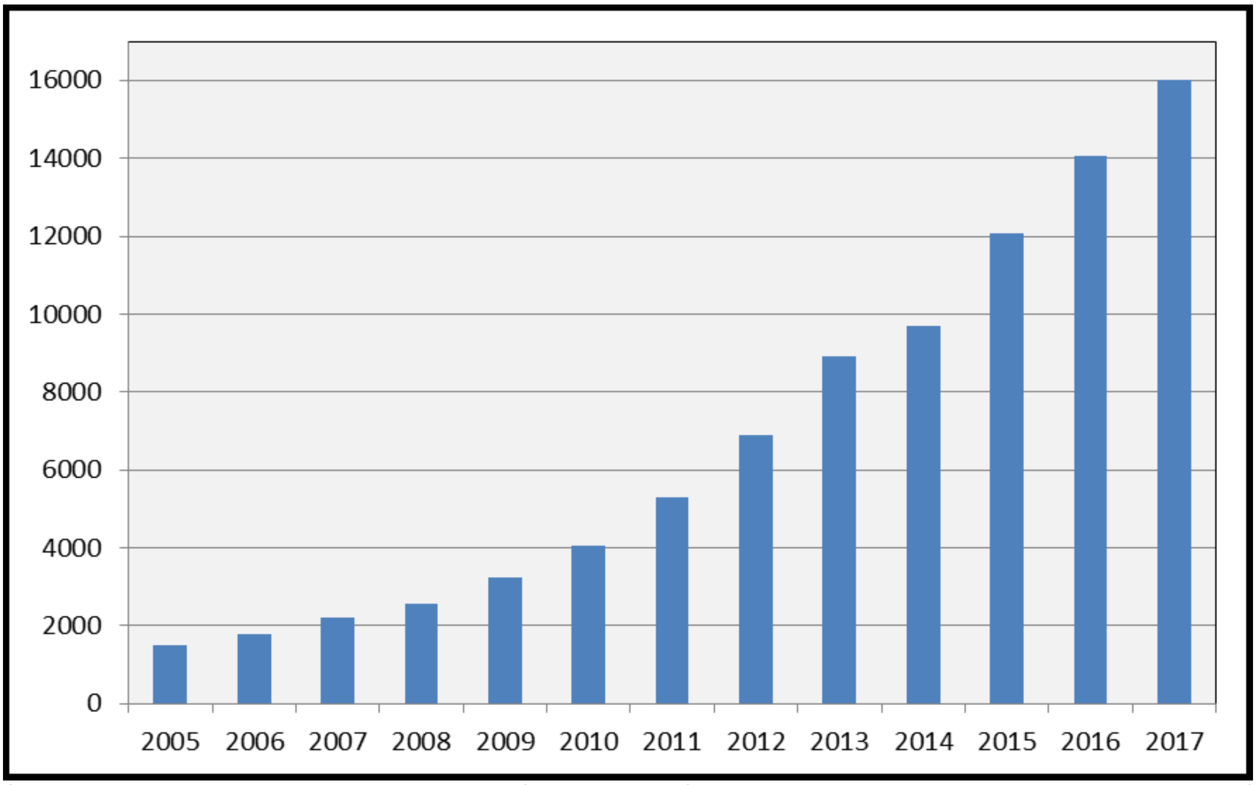
The stores of the retail chain "Magnit" are located in 2,664 localities of the Russian Federation. The coverage area of the stores occupies a vast territory stretching from west to east from Bryansk to Krasnoyarsk, and from north to south from Murmansk to Vladikavkaz. Most of the stores are located in the South, North-Caucasian, Central and Volga Federal Districts. Also, Magnit stores are located in the North-West, Ural and Siberian districts. The stores of the retail chain "Magnit" open both in large cities and in small settlements. About two-thirds of the company's stores operate in cities with a population of less than 500,000 people (Magnit-info.ru 2018a).

Figure 3 – Geography of Magnit presence on the territory of Russia in 2017



Source: own calculations based on data taken from the official website of Magnit: Magnit-info.ru, 2018a

Figure 4 – Number of Magnit stores in Russia during 2005-2017



Source: own calculations based on data taken from: Magnit-info.ru, 2018a, E-disclosure.ru, 2018, Annual report of the company "Magnit" of 2009, Annual report of the company "Magnit" of 2010, Annual report of the company "Magnit" of 2011, Annual report of the company "Magnit" of 2012, Annual report of the company "Magnit" of 2013, Annual report of the company "Magnit" of 2014, Annual report of the company "Magnit" of 2015, Annual report of the company "Magnit" of 2016, Annual report of the company "Magnit" of 2017.

The aim of the company is to ensure a high degree of resilience and competitiveness of the company by supporting life support systems at the required level, timely and qualitative adaptation of the service to the requirements of changing laws and consumer priorities (Magnit-info.ru 2018a).

The main directions for achieving this goal are (Magnit-info.ru 2018b):

- Further expansion of the chain due to increased coverage of key presence markets, organic development in the least developed regions of Russia.
- Development of the multi-format business model: the continuation of the aggressive development of the formats "shop at home", "hypermarket", "Magnit Family" and "Magnit Cosmetic".
- Formation of a high level of loyalty to the brand from the key audience.
- Implementation of additional measures to optimize costs and improve profitability.

An efficient process of delivering goods to stores is possible thanks to a powerful logistics system. For better storage of products and optimization of their supply to stores, the company has established a distribution chain, which includes 37 distribution centers and 36 trucking enterprises. Timely delivery of products to all stores of the retail chain allows to implement own fleet of vehicles, which has more than 6,000 cars. In addition, the retail chain "Magnit" is the largest private employer in Russia. The total number of employees of the company is about 280,000 people. The company was repeatedly awarded the title "Attractive employer of the year" (Magnit-info.ru 2018a).

4.3 Auchan Retail Russia

The birth of Auchan was in 1961, Gerard Mulie opened his first Auchan store in Roubaix, France, in a former factory building with an area of 600 m^2 (Auchan.ru 2017b).

The key to the success of his company was the following principles: maximum satisfaction of clients' needs, consideration of the human factor and constant development (Auchan.ru 2017b).

After 41 year of the development of the company, the first hypermarket in Russia Auchan-Mytishchi was opend in Moscow region (Auchan.ru 2017b).

Today, Auchan Russia has stores of four formats: hypermarkets, superstores, supermarkets and convenience stores. The company employs more than 41,000 people (Auchan-retail.com 2017).

Hypermarkets Auchan City in contrast to the classical hypermarkets Auchan are smaller. The assortment is smaller, in particular in the department of non-food products. Due to this format, Auchan became closer to its customers: Auchan City is located within the city, for costumers it is easier to access them (Auchan.ru 2017c).

Auchan Garden is a chain of low-cost stores that meet all the preferences of Russian consumers, specializes in garden products, decoration and products for animals (Auchan.ru 2017d).

Chain Atak is a supermarket format brand of Auchan Group. Atak operates with a single purchasing center of Auchan hypermarkets, and also makes regional purchases (Ataksupermarket.ru 2015).

My Auchan is a brand of convenience stores format (Polit.ru 2016).

Tab. 7 – Number of Auchan shops

Auchan	66
Auchan City	36
Aucan Garden	6
My Auchan	7
Atak	184
Our Rainbow	11
Total	310

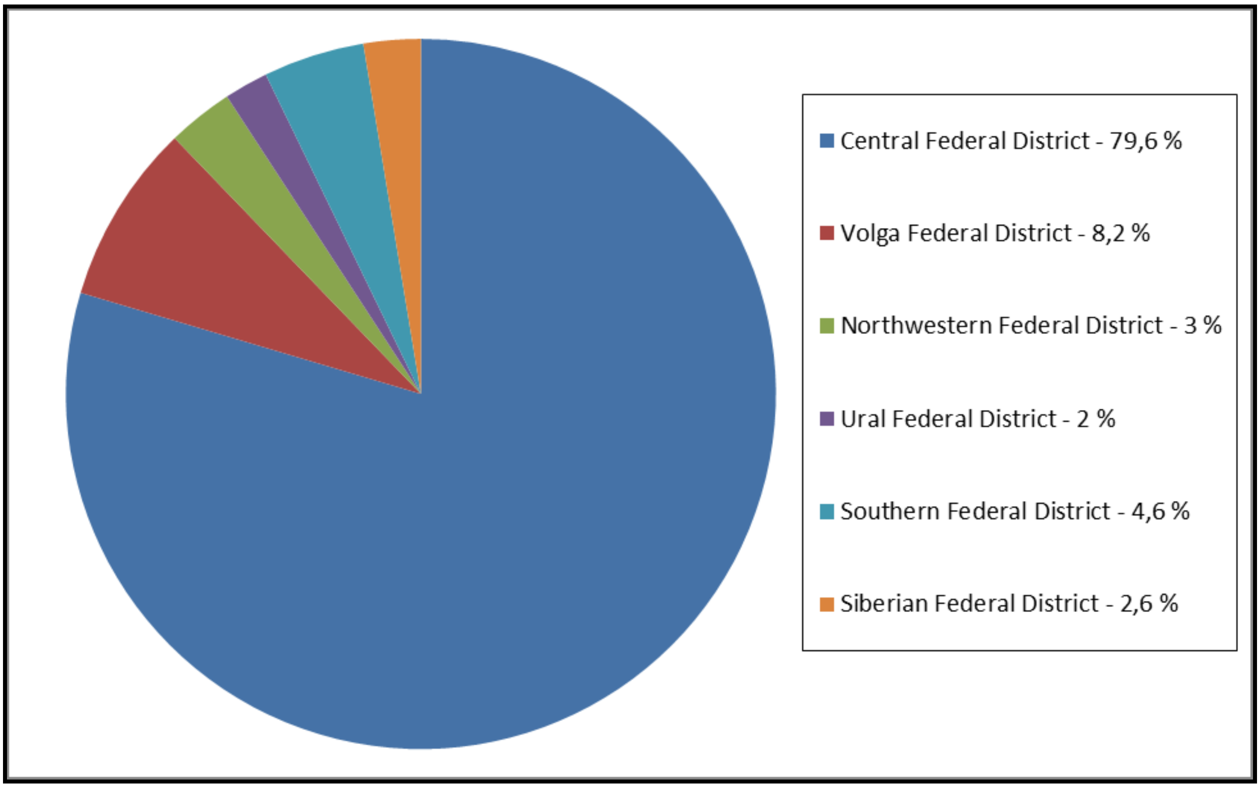
* Information of 31.12.2016

Source: Auchan.ru, 2017e

The area of the stores My Auchan and Atak is from 200 to 500 m^2. Classical hypermarket Auchan is 18,000 m^2, shops of a format Auchan City are smaller – 3,000 m^2, Our Rainbow shops have around 5,000 m^2 and Auchan Garden has trade area from 2,500 m^2.

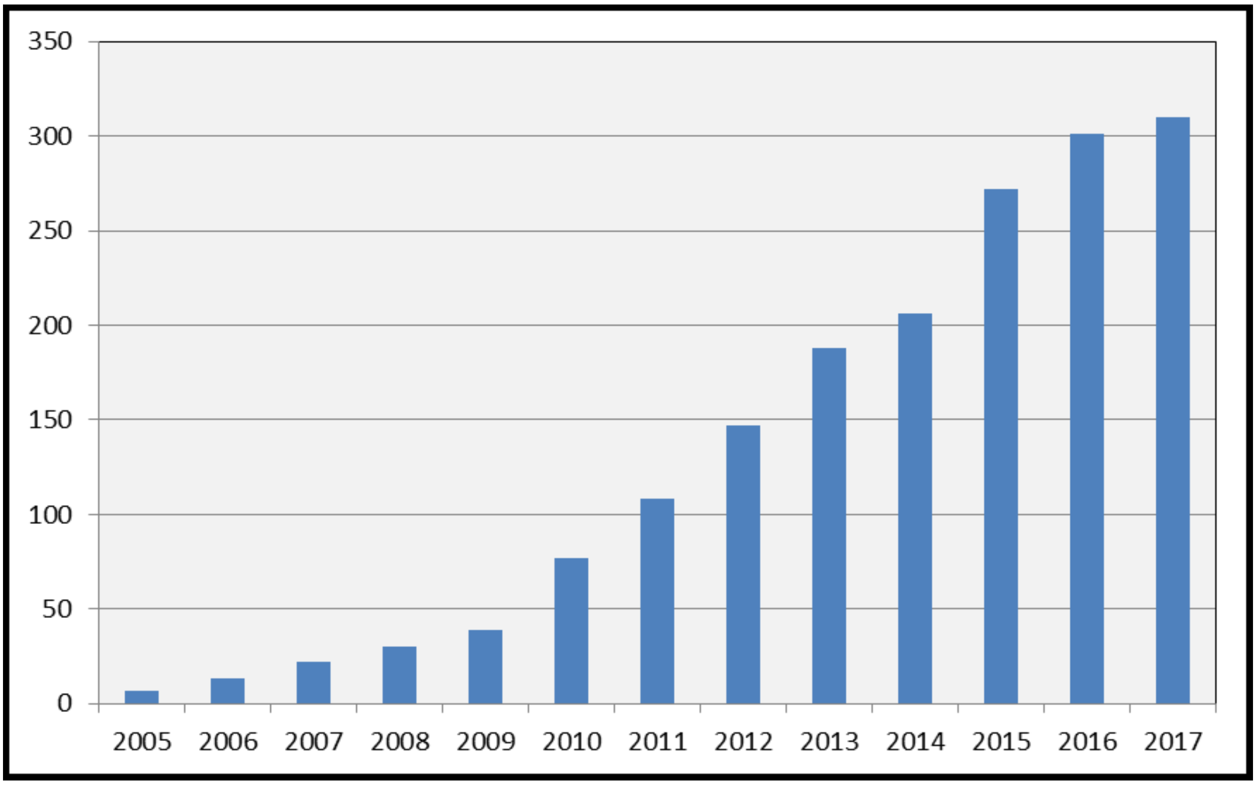
Retail chain Auchan operates in 7 federal districts in Russia. Trading chains and distribution centers X5 Retail Group are mostly located in the European part of Russia.

Figure 5 – Geography of Auchan presence on the territory of Russia in 2016



Source: own calculations based on data taken from the official website of Auchan Retail Russia: Auchan.ru, 2017e

Figure 6 – Number of Auchan stores in Russia during 2005-2017



Source: own calculations based on data taken from the official website of Auchan Retail Russia: Auchan.ru, 2017e

Offering a wide range of quality products at prices 10 to 20 % lower than competitors - the key to the success of the Auchan in Russia (Auchan.ru 2017a).

The general director of the retail unit Auchan Retail Wilhelm Ubner says that the company aspires first of all "to consolidate its place on the podium" (Inosmi.ru 2017). Auchan needs to adapt to changes in Russian economy and decline of purchasing power of the consumers.

To expand the format and strengthen its position in the city centers, the company started developing larger stores than My Auchan. It is kind of city supermarkets with the area from 2,000 to 5,000 m^2 with an emphasis on products and goods of daily necessity (Inosmi.ru 2017).

The company still holds on to the "general discount" strategy, which allowed it to succeed in the country.

The last component of the strategy is the modernization of supermarkets "Atak" (from 500 to 2,000m^2), which are gradually renamed into "Auchan supermarket."

Auchan is also trying to develop hypermarket format because there are competitors whose positions in this format are rather quickly growing, in "Auchan" 90 % of the total turnover in Russia falls precisely on this traditional concept for the company (Inosmi.ru 2017).

With the growing popularity of electronic commerce among Russian consumers, the company also plans to grow in this area. Now, delivery is possible for 40 thousand non-food items and recently replenished with 2 thousand new delivery points in the company's stores and in other outlets. In the future it is planned to begin shipping products to the homes in Moscow (Inosmi.ru 2017).

4.4 Dixy group

The foundation of a company Dixy group, specializing in wholesale and distribution, took place in St. Petersburg in 1992 (Dixy.ru 2018).

The company became Russia's first exclusive distributor of a number of international brands, including Unilever, Henkel, Schwarzkopf, Wella, etc., having occupied more than 30 % of the Russian wholesale market of perfumery and cosmetics, and also acquired the status of the largest importer of food products in Northwestern Federal District (Dixy.ru 2018).

In 1999 the first Dixy store of the discounter format was opened in Moscow.

Dixy operates convenience stores under the brand "Dixy", supermarkets under the brand "Viktoria", compact hypermarkets under the brand "Megamart".

Chain of Dixy stores in the 1Q of 2016 had 2598 shops with the average retail area of the store of 292 m^2. Share in net retail revenue of Dixy Group in 1Q of 2016 was 81 % (Presentation.eqs.com 2016).

Chain of Viktoria stores in the 1Q of 2016 had 113 shops with the retail area of the store of 313-1,270m^2. Share in net retail revenue of Dixy Group in 1Q of 2016 was 13 %. Shops have around 2,400-22,300 items of goods (Presentation.eqs.com 2016).

Chain of Megamart stores in the 1Q of 2016 has 38 shops with the retail area of the store of 800-2,575 m^2. Share in net retail revenue of Dixy Group in 1Q of 2016 was 6 %. Shops have around 6,200-21,000 items of goods (Presentation.eqs.com 2016).

Tab. 8 – Number of Dixy Group shops

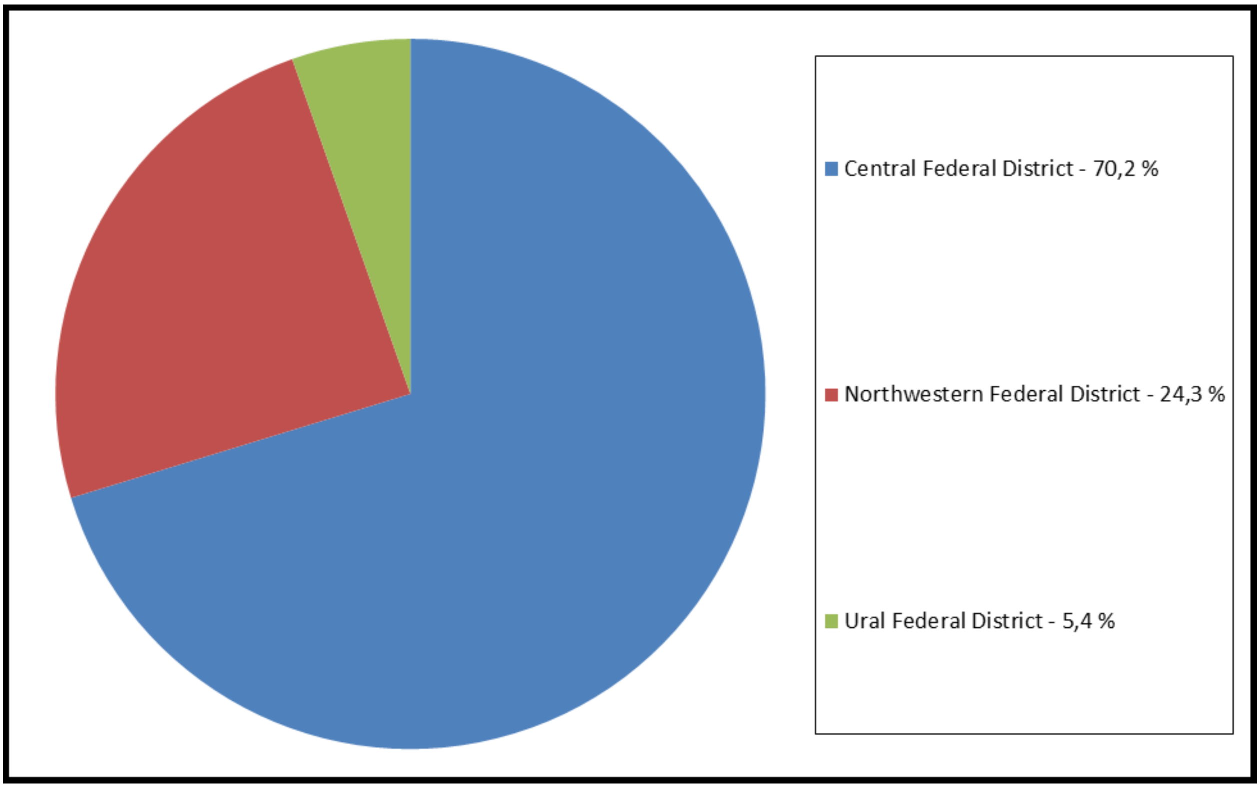
Dixy	2,598
Viktoria	113
Megamart	38
Total	2,749

* Information of 1Q 2016

Source: Dixy.ru, 2018

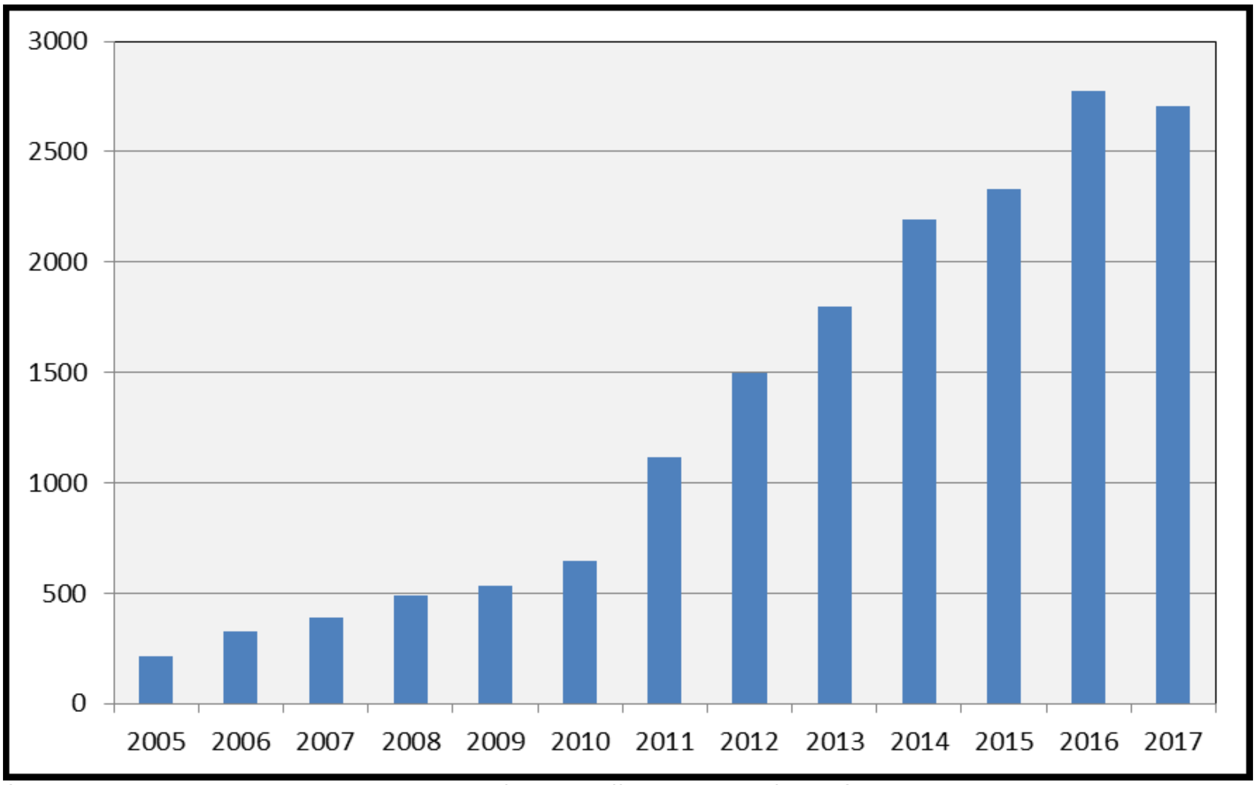
Dixy stores are located throughout all Russia - both in large and small towns of the Central, North-Western and Ural federal districts. In total, distribution chain of 697 settlements and has 2,598 convenience stores. Since the opening of the first store in Moscow, the Dixy chain has been growing at a fast pace. In 2016 the company opened new stores literally every day (Presentation.eqs.com 2016).

Figure 7 – Geography of Dixy Group presence on the territory of Russia in 2016



Source: own calculations based on data taken from the official website of Dixy Group: Dixy.ru, 2018

Figure 8 – Number of Dixy Group stores in Russia during 2005-2017



Source: own calculations based on data taken from the official website of Dixy Group: Dixygroup.com, 2017

The company focuses on the convenience store format, which accounts for about 80 % of sales and retail space. The supermarket chain "Victoria" brings 13 % of revenue. Dixy also manages the chain of compact hypermarkets Megamart in the Urals, which account for about 7 % of revenue.

Korzhova (2017) writes that "Dixy" is going to do a reconcept of shops. "Dixy" intends to significantly increase sales of goods under its own trademarks. Assortiment of convenience stores will be significantly reduced (Korzhova 2017)

4.5 Lenta

Lenta is the first largest hypermarket chain and the fourth among the largest retail chains in the country.

The company was founded on 25.10.1993. The first store-warehouse in the commercial format cash & carry was opened in Saint Petersburg, where only 2 cashboxes worked. Store-warehouse was designed for a wholesale buyer: owners of cafes, restaurants, small retailers. The assortment consisted mainly of confectionery, alcohol products, the most popular varieties of tea and coffee. From the very beginning, the main advantage of "Lenta" was low prices (Lenta.com 2018b).

The company develops several formats of hypermarkets with low prices, which differ in marketing and pricing policies, as well as in the range of products of local producers. As of 30.07.2017, the Company had 40,400 employees (Lenta.com 2018a).

Lenta manages 231 hypermarkets in 83 cities across Russia and 97 supermarkets in Moscow, St. Petersburg, Novosibirsk, Yekaterinburg and the Central Region with a total sales area of 1,382,477 m^2. The average retail space of one Lenta hypermarket is about 5,600 m^2, the average area of the supermarket is 900 m^2. The company operates seven own distribution centers (Lenta.com 2018a).

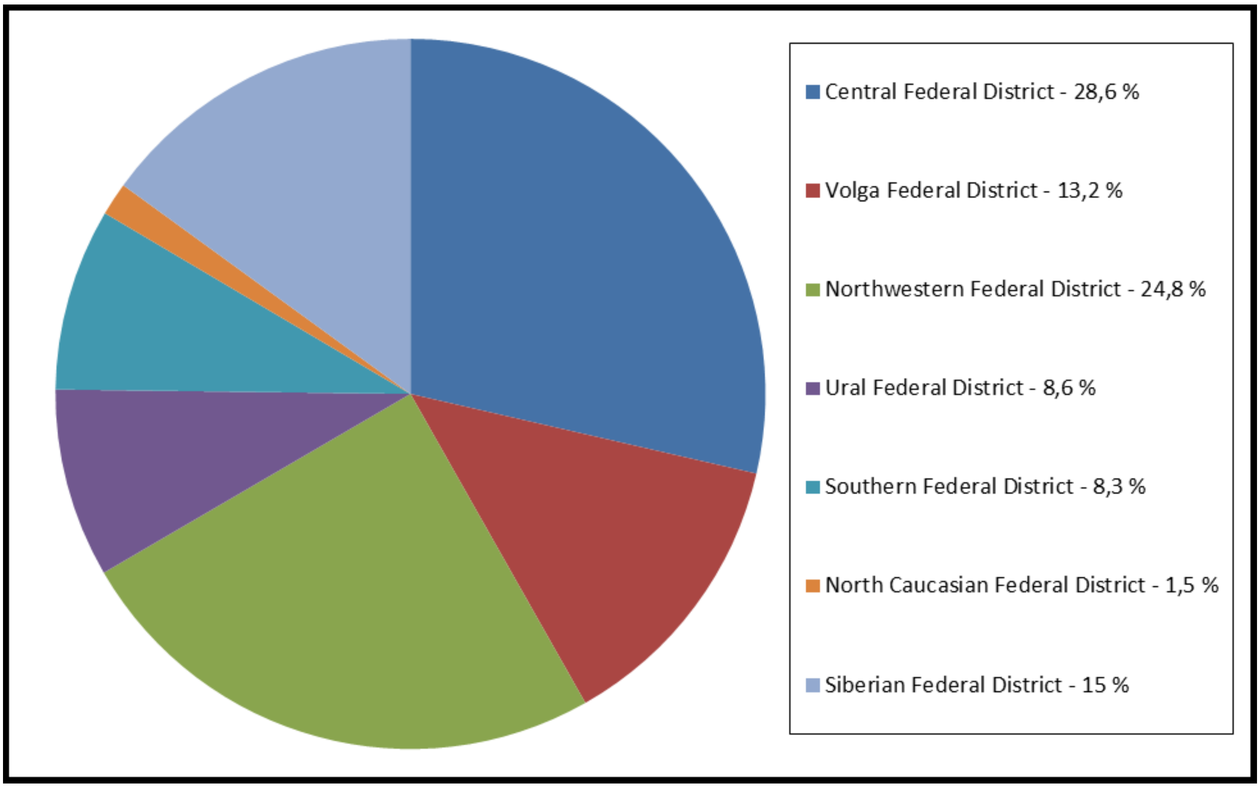
Tab. 9 – Number of Lenta shops

Lenta hypermarkets	231
Lenta supermarkets	97
Total	328

* Information of 3Q 2017
Source: Lenta.com, 2018a

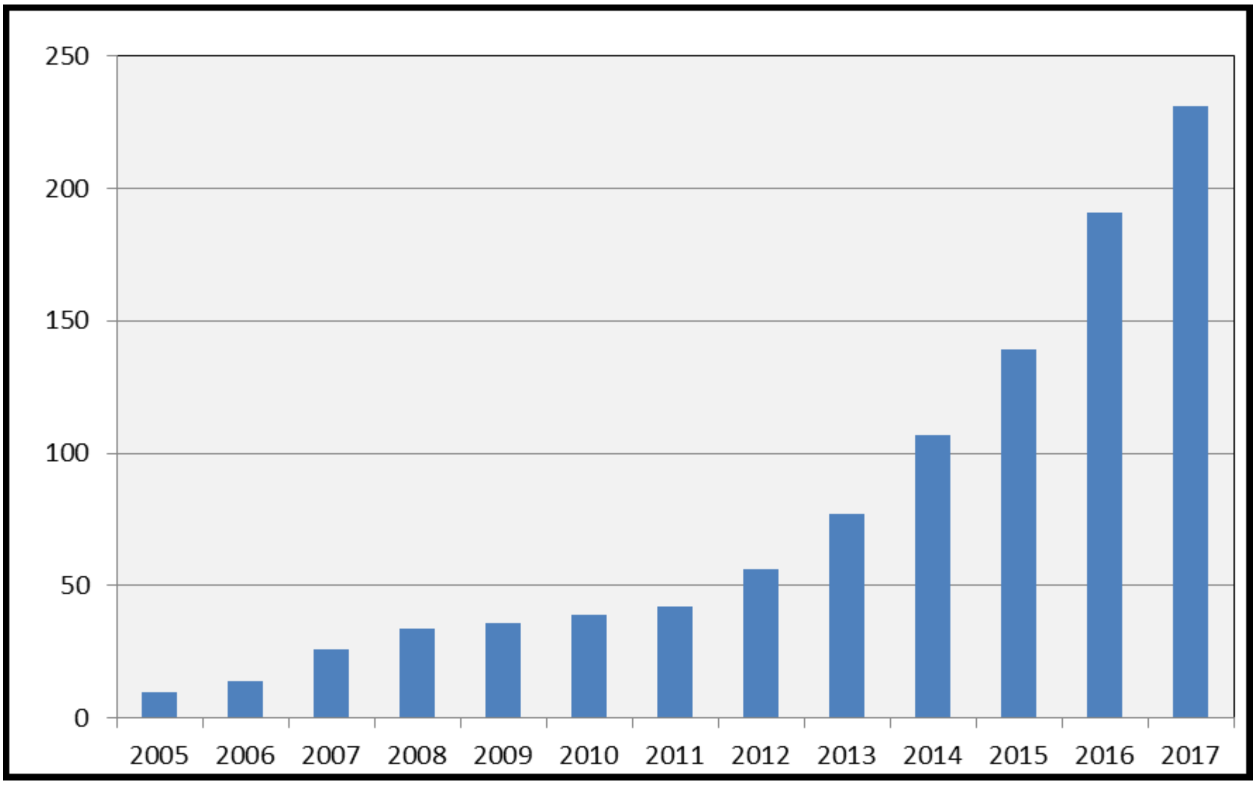
The company is represented by chains of various formats in 7 of the 8 federal districts of Russia. Trading chains and distribution centers of Lenta are mostly located in the European part of Russia (Lenta.com 2018c).

Figure 9 – Geography of Lenta presence on the territory of Russia in 2017



Source: own calculations based on data taken from the official website of Lenta: Lenta.com, 2018c

Figure 10 – Number of Lenta stores in Russia during 2005-2017



Source: own calculations based on data taken from the official website of Lenta: .Lentainvestor.com, 2018

Retail chain Lenta has a several long-term goals for 2017-2020: to enter the top three leading multiformat food retailers in Russia and become the largest hypermarket chain in order to maximize the benefits from suppliers and economies of scale in fixed costs; to focus on profitable growth, the balance between capital investments and return on investment (IRR (Internal Rate of Return) at 20 %), in order to maintain the best market performance indicators; to strengthen a stable financial position, adhere to a conservative approach to debt burden; to invest in the development of human capital, aimed at maintaining the team "Lenta" at the highest level in the retail industry; to double the trading area before the end of 2020; to create new formats for further business growth (Lenta.com 2018d).

Lenta also has individual programs of the development of each of the formats it operates (Lenta.com 2018d).

Development of hypermarkets:

- Open organically 150-200 thousand m2 of sales space annually, a long-term market potential in target cities - about 400 new hypermarkets.
- Priority in the medium term - Moscow, St. Petersburg and other large cities; continued development in the cities of the presence, as well as access to smaller new cities.
- New investments and increased efficiency of the chain to increase return on capital and create opportunities for access to small settlements.

Development of supermarkets:

- It is essential to increase the number of supermarket openings by increasing their trade area 8 times to 2020 (up to 15-20 % of the total sales area of the Company);
- Expand the supermarket chain around the existing distribution centers, starting in 2017;
- The main emphasis on the lease scheme of development, with the ownership of 20-30 % of the sales area.

4.6 Metro Cash & Carry

Metro Cash & Carry was founded in Germany in 1964. Already 4 years later, in 1968, the concept of "cash & carry" went beyond Germany, when the company came to an agreement with the Dutch chain Dutch Steenkolen Hendelsvereniging N.V. (SHV) on the creation of a joint company Makro Zelfbedienigsgroothandel C.V., in which the founding partners owned 40 % of the shares (Metro-cc.ru 2018a).

In Russia, Metro Cash & Carry has been present since 2000, when the central office of the company was registered in Moscow. A year later, in November 2001, the first two Metro Cash & Carry wholesale trade centers were opened in the Russian capital (Metro-cc.ru 2018a).

Metro operates more than 700 small wholesale trading centers in 30 countries under the brands Metro and Makro. The total shopping area of stores exceeds 5.3 million m^2. Thus, the average retail area of the store is 7,800 m^2, while the area of the classical store format varies from 10 to 16 thousand m^2, in the junior format - from 7 to 9 thousand m^2 (Metro-cc.ru 2018a).

Metro-Item is a new format for shopping centers METRO Cash & Carry, created specifically for one of the key groups of Metro customers - retailers: shop keepers convenience stores format, kiosks, and pavilions. Located on an area of 2.1 thousand m^2, Metro-Item has gathered all the necessary assortment under one roof (Metro-cc.ru 2018c).

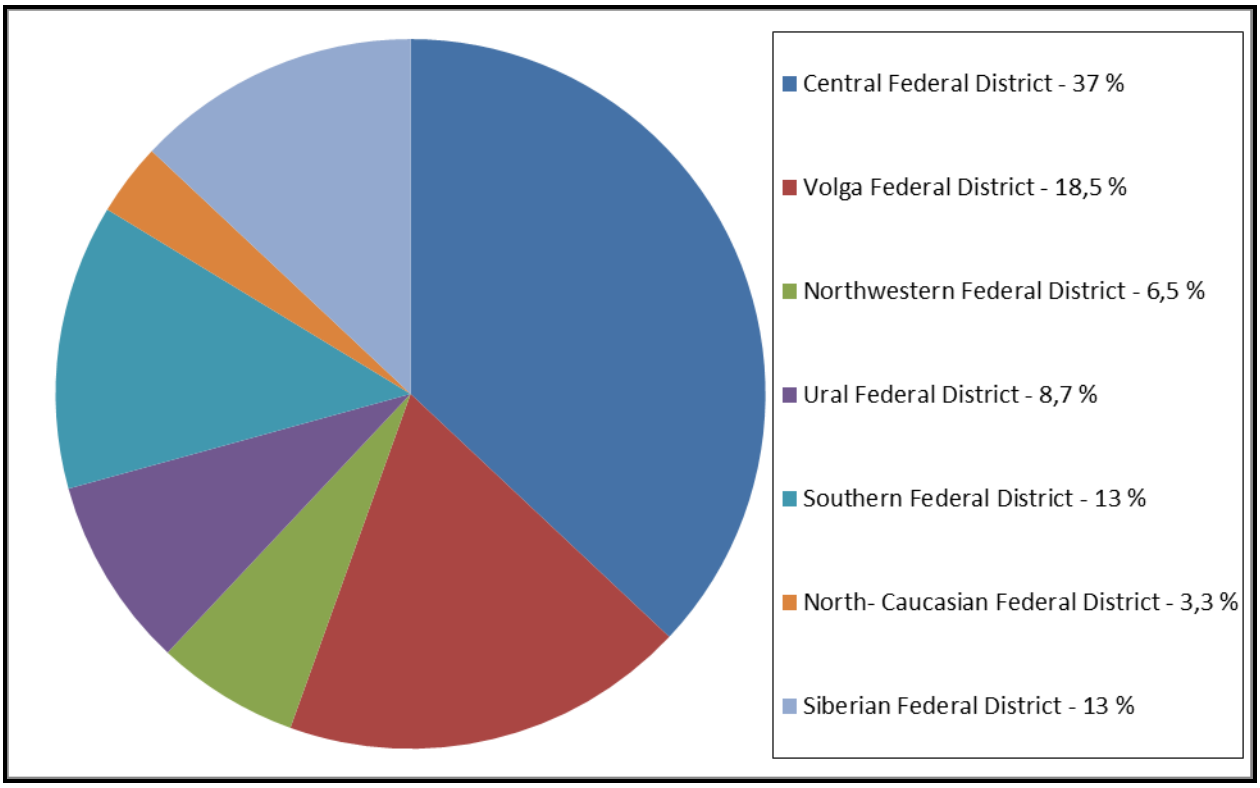
Tab. 10 – Number of Metro Cash & Carry shops

Metro Cash&Carry	87
MediaMarkt	63
Metro-Item	5
Total	155

* Information of 3Q 2016
Source: Metro-cc.ru, 2018b

The company is represented by chains of various formats in 8 federal districts of Russia, nevertheless, and distribution centers of Metro Cash & Carry are mostly located in the European part of Russia (Metro-cc.ru 2018b).

Figure 11 – Geography of Metro Cash & Carry presence on the territory of Russia in 2017



Source: own calculations based on data taken from the official website of the company Metro Cash & Carry: Metro-cc.ru, 2018b

The company's strategy is based on supporting small and medium-sized businesses, concentrating on improving customer experience (Retail.ru 2017).

The company aims to support those entrepreneurs whose business is related to food and will try to show how to make the process of increasing sales more democratic due to competitive and fair prices for quality goods (Retail.ru 2017).

The company continues to develop a partnership with Russian suppliers.

The huge distances in Russia have also posed new logistics tasks for the company: Shipping goods through the Russian plains and mountains can take up to six days. Nevertheless, the METRO brand so far succeeds in the boosting Russian economy (Retail.ru 2017).

5 Shopping in Russia

There are many companies in Russian retail market. Up to 90 % of the realized sales are in the form of store retail, i.e. in the form of food and non-food retail through retail outlets of different formats such as supermarkets, hypermarkets, convenience stores etc. The development of these sales units is undergoing constant changes and shows various trends that affect the retail market in Russia.

ResearchMe interrogated 1,234 men and women from all districts of Russia at the age of 18 and older on their preferences and feelings of shopping at grocery stores. According to the survey results, the most popular types of grocery stores in Russia in 2018 are supermarkets and convenience stores of retail chains (like Pyaterochka, Magnit, Dixy) – 94 % of Russians use them. At the same time, 55 % of respondents shop in the economy class supermarket chain 2 times a week and more often (Retail.ru 2018b). Buyers are attracted by regular discounts on certain categories of goods – such actions are important for 25 % of Russians.

A little less than a third of Russian people (30 %) visit non-chain convenience stores of self-service at least twice a week, and 26 % make purchases several times a week in "traditional" supermarkets and grocery stores (Retail.ru 2018b) about the research of preferences and feelings of shopping in grocery stores. Adherence to small supermarkets and convenience stores near the house is explained by the unwillingness of Russians to spend time searching for the necessary food products – 38 % of survey participants for ResearchMe noticed that shopping is not a pleasure for them but is a "compulsory necessity" (Retail.ru 2018b).

Hypermarkets (such as "Auchan", "Metro", "Globus") lose in popularity to their small chain competitors – one of every five respondents visit large food areas less than once a month, and a quarter of the survey participants do not make purchases in stores of this format (Retail.ru 2018b).

It is interesting to note that by words of Retail.ru (2018) chain hypermarkets are especially unpopular among residents of cities with a population of less than 500,000 people. Customers go to supermarkets and mini-markets of the "mass" segment (like Billa, Magnolia, 7th) very rarely – 48 % of respondents said they never make purchases in such stores, so these companies are out of the top ten largest companies in Russian market.

More than 60 % of Russians still buy products in markets and weekend fairs – although open-air markets are visited by most respondents less than once a month. ResearchMe counted that 54 % of the participants in the study make purchases at various street stalls at street food kiosks (Retail.ru 2018b).

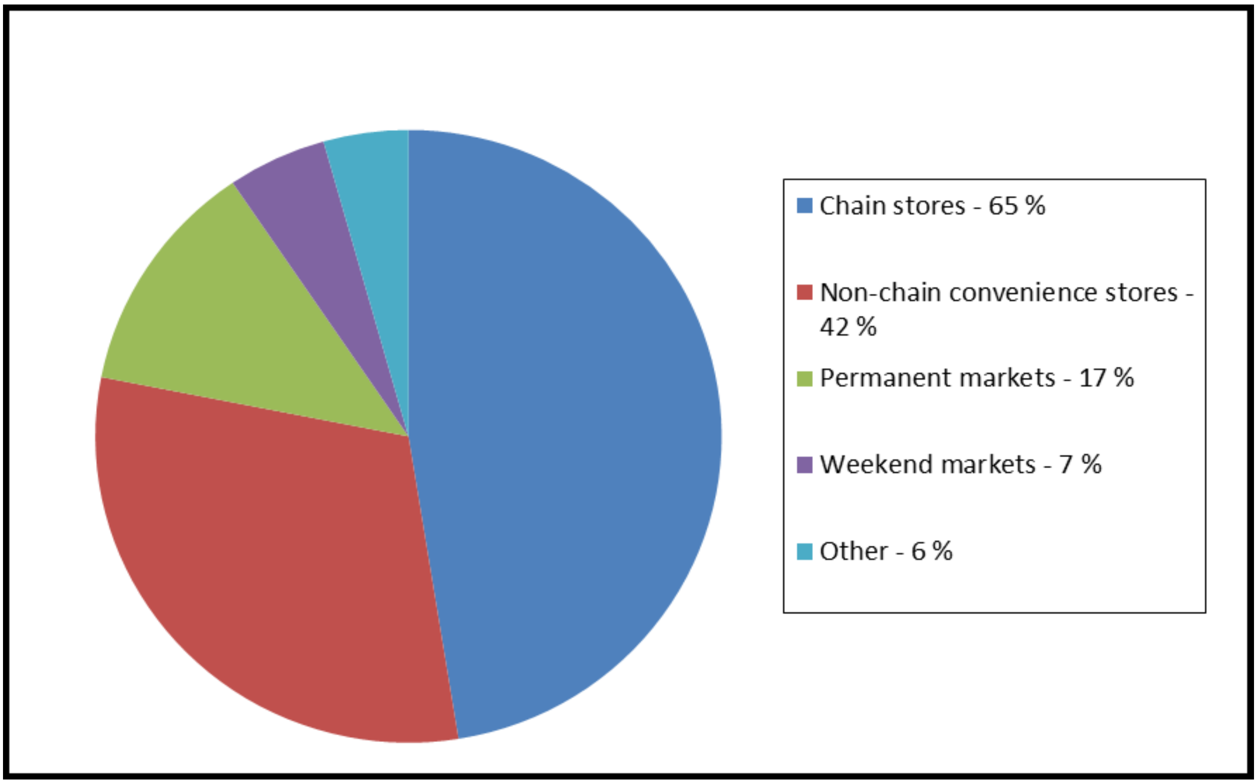
The ability to order food or even specially selected ingredients for specific dishes with home delivery is used primarily by residents of the capital. In Internet food hypermarkets 41 % of people living in Moscow and less than a third (29 %) of people living in small Russian cities make orders.

The majority of Russians (72 %) prefer to buy products in chain stores, while 60 % prefer large federal chains, according to an interview of the All-Russian Research Center of Public Opinion (Retail.ru 2018b).

According to sociologists, in cities with a population of one million and more, 83-84 % of people make purchases in chain supermarkets, 72-79 % of residents of large cities prefer federal chains (Vzglyad 2018).

As Zubarev (2018) informs, 47 % of Russians prefer to buy products produced in their region, 29 % of respondents buy both local and imported products, and for 19 %, the place of origin is not important (Zubarev 2018).[1]

Figure 12 – Where does your family buy most of the basic food products (bread, dairy products, cereals, pasta, flour, etc.)?



Source: Milknews.ru, 2017, All–Russian Research Center of Public Opinion, 2017.
*The data are given without the option "I cannot answer". The average value of this variation is 0.04%.

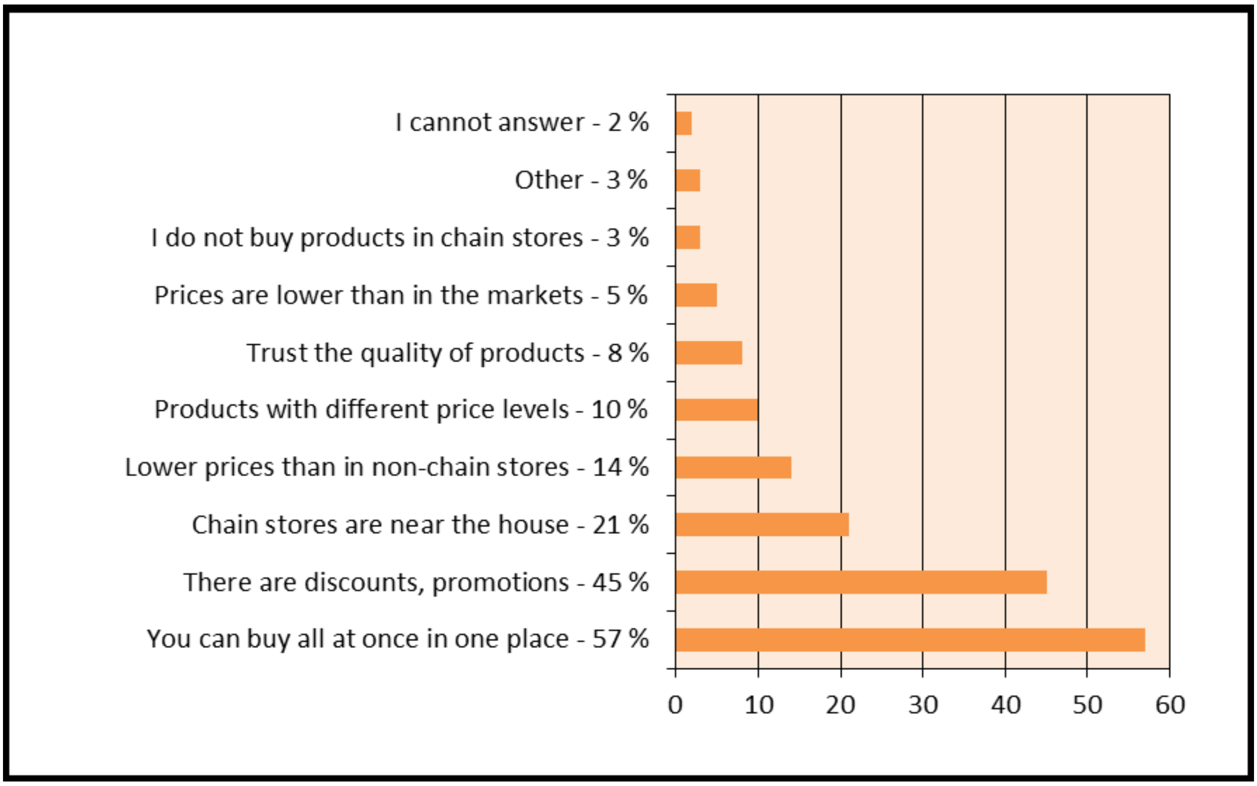
Chain stores are more often used by:

- Working young (25-34 years) – 70 %
- Residents of Moscow and St. Petersburg – 80 %
- Residents of cities with a population of 500,000 to 1 million – 72 %

The main reason why respondents choose online stores is not the price but a wide range of goods and the opportunity to buy products with a discount. In this case, a large selection of goods is most important for people with a good financial situation, for citizens with lower incomes, the priority is the availability of actions and discounts in stores (Milknews.ru 2017).

[1] Data provided by the newspaper Vzglyad were obtained from All–Russian Research Center of Public Opinion, which made All–Russian interview on April 12–17 2018 by the request of the Center for Social Design "Platforma". The sample size is 2,000 people. The maximum error size does not exceed 2.2 %.

Figure 13 – What are the two most important reasons why you buy products in chain stores?



Source: Milknews.ru, 2017, All-Russian Research Center of Public Opinion, 2017.
*Closed question, under 2 answers.

Availability of a wide range of products is more important for[2]:

- Students – 70 %
- People with a good financial situation – 72 %

Discounts, actions, reduced prices are more important for:

- Inhabitants of cities with a million population – 55 %
- People with a bad financial situation – 49 %

We can see from the interview that people care about the time spending on shopping. As an advantage, 57 % of people mentioned that in chain stores they can buy all at once in one place, and 21 % of interrogated said that the reason of buying products in chain stores is proximity to home, 78 % in total. Therefore, location planning is one of the most important features for the successful running of the business. All-Russian Research Center of Public Opinion conducted an interview in all regions of Russia in 2015 with a question: “Which of the listed shopping facilities are located in the immediate vicinity of your place of residence and/or work?”, results are shown in table 11.

[2] The All–Russian Research Center of Public Opinion survey was conducted on April 14–15, 2017, commissioned by the "Platform". The survey involved Russians aged 18 and older. The survey method is a telephone interview on a stratified two–base random sample of stationary and mobile numbers of 1200 respondents (Milknews.ru 2017).

Tab. 11 – Which of the listed shopping facilities are located in the immediate vicinity of your place of residence and/or work?

Possible answer	Location	
	Near the house	Near the work
Food tents, kiosks	37 %	21 %
Mobile food stalls	13 %	16 %
Stationary grocery stores	59 %	29 %
Supermarkets for self-service	65 %	33 %
Shopping centers	35 %	32 %
Agricultural markets	19 %	19 %
Weekend fairs	15 %	16 %
All listed	8 %	6 %
None of the listed	3 %	8 %
Cannot answer	5 %	12 %

Source: Superjob.ru, 2016, All-Russian Research Center of Public Opinion, 2015.
*Study population: economically active population of Russia over the age of 18
Sample size: 5000 respondents

Supermarkets are the closest format of sales units to the main destinations for people (home and work), also they are the most visited ones.

6 Comparison of Auchan and Lenta

In the next part, I'm going to analyze the location and the most numerous formats of sales units of Auchan and Lenta. I chose these chains because I wanted to compare an originally Russian chain to a foreign one, these chains are ones of the biggest in Russian market, they both concentrate on hypermarket format in spite the fact that people care about the time spending on shopping and that mostly they go to supermarket sales units, and the last reason to choose Auchan and Lenta was the availability of data and information.

6.1 Auchan

6.1.1 Geography of the presence of Auchan in Russia

On 28 of August in 2002 the first hypermarket in Russia Auchan-Mytishchi in Mytishchi (Moscow region, 25 km from Moscow) was opened. It is interesting to note that first hypermarket should have been opened within Moscow but the management of Auchan could not agree with local authorities. I also suppose that among the criteria to build first Auchan in Mytishchi was the lower cost of the construction plots. On 18 of December in 2002 the second hypermarket in Russia Auchan-Kommunarka was opened already in Moscow (Auchan.ru 2017b).

In the period of 2003-2005 6 hypermarkets in Moscow and Moscow region were opened. Auchan established its position in the market.

A year of the beginning of the development of the Auchan retail chain outside of Moscow and Moscow region was 2006. On 20 of October tenth hypermarket of Auchan and first one out of Moscow and Moscow region in Nizhny Novgorod was opened. The choice of location is understandable. Nizhny Novgorod is not far from Moscow (416 km), company can use its existing distribution center more effectively, preferences of consumers practically do not differ from Moscow, and Nizhny Novgorod has one of the highest quality of life in Russia, fourteenth place from 85 (difference between the first and the last place is 6 fold) in 2016 (Riarating.ru 2017).

The key event in 2007 was the purchase of the Ramstore chain. In December Auchan enters into an agreement with the Turkish company Enka on the transfer of hypermarkets of the Ramstore chain. According to the agreement, Auchan acquires 1 hypermarket in the ownership, and for the other 11 stores receives long-term lease rights (Auchan.ru 2017b).

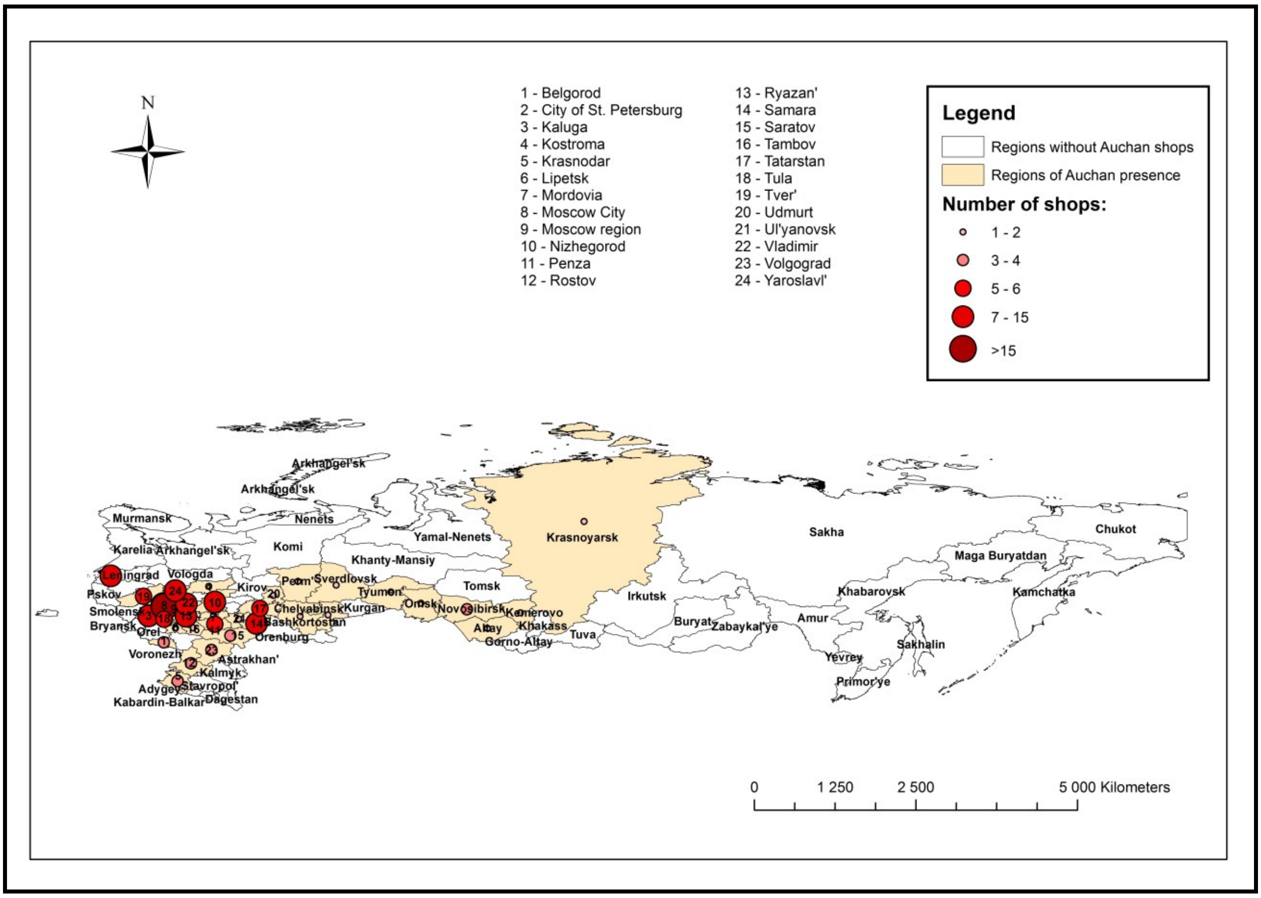
In 2007-2009 Auchan actively started to spread into Russian regions, the company opened hypermarkets in Samara, Rostov-on-Don, Krasnodar, Novosibirsk, and Yekaterinburg. All of these cities are bigger than 1 million people except of Krasnodar (~800,000), but from Krasnodar to Rostov-on-Don there is just 277 km, so Auchan used the same benefits as in case with Moscow and Nizhny Novgorod, also Krasnodar is the capital of Krasnodarsky region – tourist region of Russia, which causes a large flow of people, moreover Krasnodar has 5th position in Russian rating of quality of life (Riarating.ru 2017). In 2008 the format "Auchan City" – hypermarkets of walking distance, was launched. The first hypermarket of this format was opened in Moscow.

The event that characterizes 2009 is a launching of new formats "Auchan Garden" and "Our Rainbow" (Auchan.ru 2017b). On 30 of April, the first Auchan Garden store in Mytishchi (Moscow region) was opened. On 20 of May, the same format was opened in Moscow. On 11 of December, the first Auchan hypermarket of the format “Our Rainbow” was opened in Penza. Penza is a city in the Central Federal District in Russia. It is an administrative, economic and cultural center of the Penza region, with a population about 600,000 people, and a good quality of life, - 26th place in Russia (Riarating.ru 2017). Our Rainbow shop has an area of 5,000 m^2, so it suits well the size of the city. The classical format of Auchan hypermarket would be too large for Penza.

In 2010 the Auchan´s management launched an internet sales and shareholding programs for employees. In period 2010-2016 more than 60 hypermarkets of different formats were opened in different regions of Russia (Auchan.ru 2017b). At the beginning of 2012 in all regions of the Auchan presence, VISA payment cards began to be accepted, and by the end of the year payment by cards of the Mastercard system. In November 2012, between the Auchan Group and Metro Group, a deal was signed on the transfer of facilities of “Real” in Central and Eastern Europe, so 16 hypermarkets of Real went to Auchan. The reorganization of hypermarkets was completed in 2013. In 2015 – establishment of Auchan Retail Russia, the beginning of the construction of the Meat Processing Section. In 2016 Auchan continued to invest in the Russian economy and continued to develop. Auchan launched a franchise in Tajikistan and opened its first drug store.

New formats of sales units are tested by Auchan´s management in cities with high quality of life ranking and population of more than 500,000 people. That is a comfortable space for developing new business. The company has an opportunity to see how business goes without dramatic consequences, to recognize mistakes and to prevent them in a riskier region in the future.

Figure 14 – Geography of Auchan presence in Russia in 2018



Source: Own processing based on data from Auchan.ru, 2017e

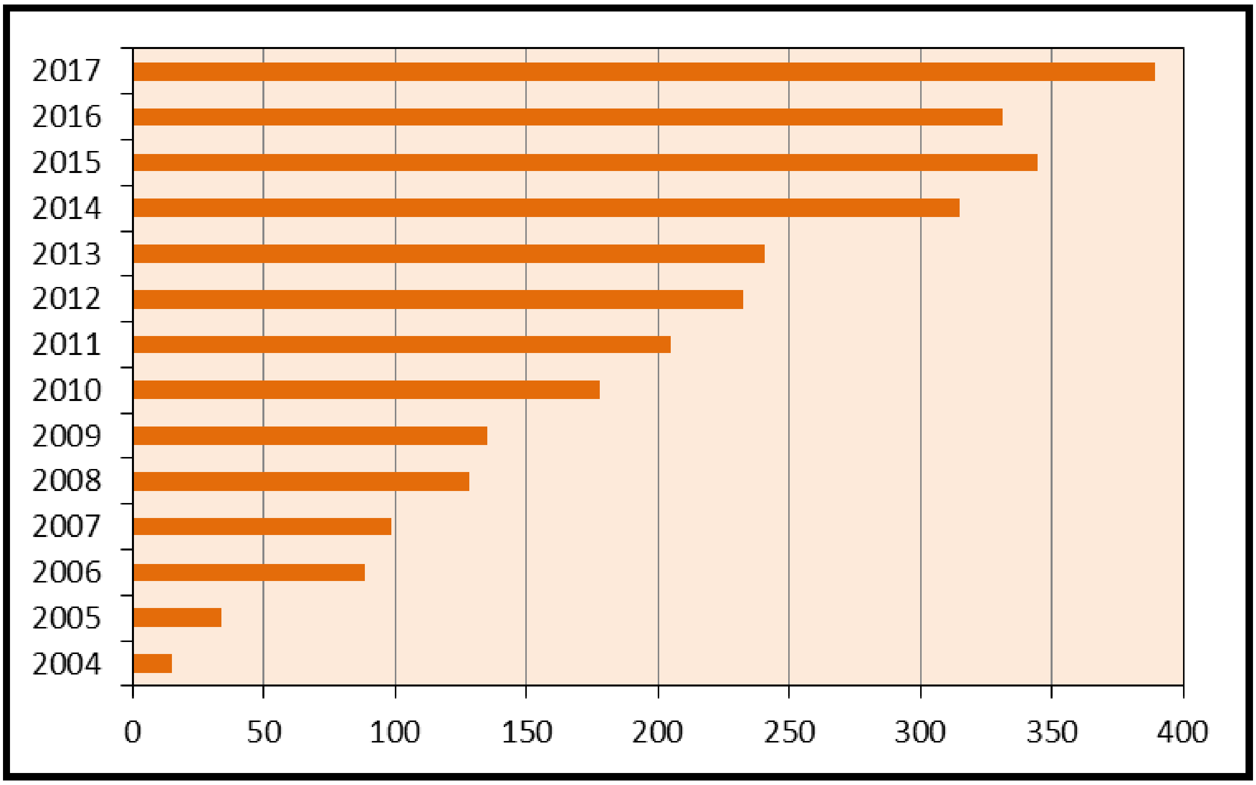
* The map doesn't show the shop in Simferopol, because the shapefile of Russia has not been edited after the annexation of the Crimea on www.diva-gis.org.

In sum, Auchan has placed 195 sales units in Moscow and Moscow region, second place by number of sales units is occupied by Nizhniy Novgorod but just with 15 sales units, third place – St. Petersburg (the origin of Lenta) with 9 sales units, 7 and 6 have Yaroslavl and the region and Penza respectively, to compare with Magnit in Krasnodar (the origin of Magnit) Auchan has just 3 sales units.

6.1.2 Revenue of Auchan in Russia

It is very important to know what is the result of Auchan´s activity, the main result of the business is a revenue (Figure 4). Auchan does not disclose information about its revenue, so the data were taken from estimates of different sources for a different time.

Figure 15 – Auchan revenue in 2004-2017



Source: Kommersant.ru, 2017, New-retail.ru, 2015, Retail-loyality.org, 2014, Finmarket.ru, 2013, Finmarket.ru 2012, Retailer.ru, 2012, Kommersant.ru, 2011, Retail.ru, 2009, Advis.ru, 2007, Lenta.ru, 2018, Sostav.ru, 2008.
*Data in euros and dollars were translated into rubles at the rate of the corresponding year.
*The lack of data for 2002 and 2003 is due to the inability to find the source of reliable data.
*Data are given in billions of rubles.

Auchan has the third position in top ten retailers in Russia by revenue (389 billion rubles). First and second places are occupied by X5 Retail Group and Magnit with 1.29 trillion rubles and 1,14 trillion rubles respectively (Malls.ru 2018). The final numbers of revenues do not reflect the real situation, it is important to note that Auchan has one of the highest indicators of the efficiency. I have counted an indicator of efficiency to the number of employees (Revenue/Number of emloyees) (Auchan-retail.com 2018, Lenta.com 2018a). Auchan has 9487804,9 rubles per employee (2017), Lenta has 9039034,6 (2017) and to compare Magnit just 4136957,5, it is ~2,2 times less then has Auchan and Lenta. It means if Auchan and Lenta would have the same number of shops as Magnit, then it would have higher revenue, but the problem is that analysts of the investment company Renaissance Capital estimated that the Russian market allows to open only 353 large-format stores in the regions (Vedomosti.ru 2016).

6.1.3 Capacity of the Russian market for hypermarkets

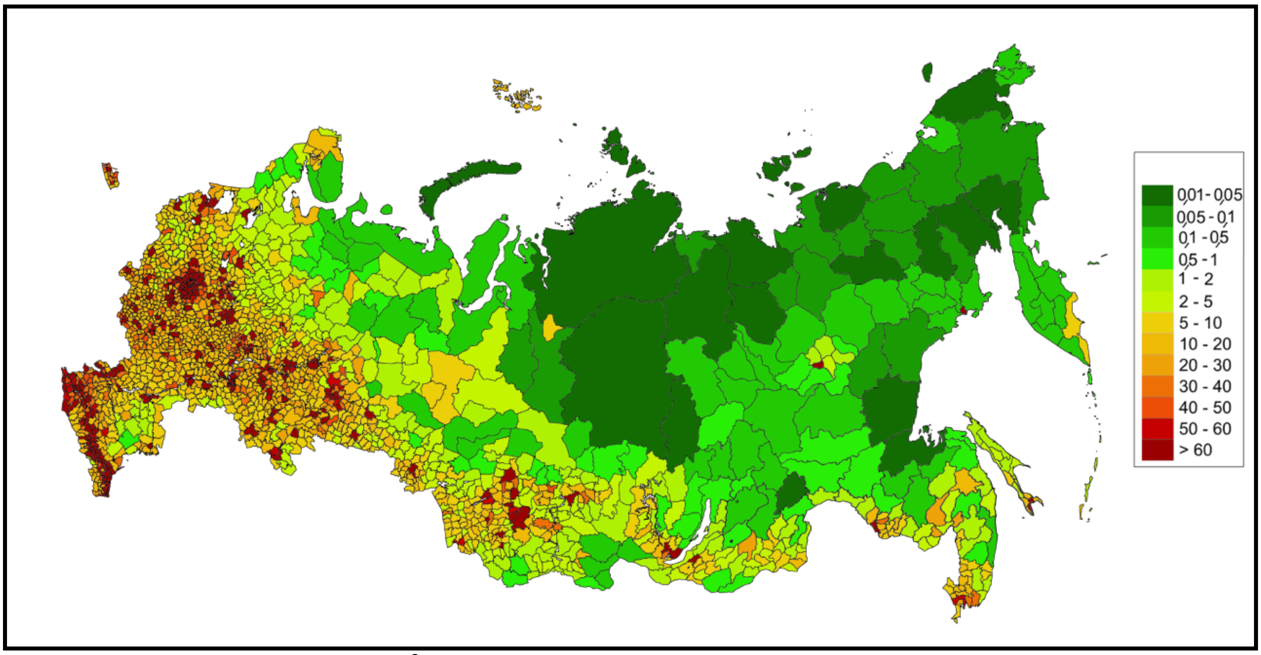
In 2016 the leader among hypermarkets in terms of chain size was Magnit, the second place with 110 stores (17.4 % of the market by the number of trade points) is occupied by Lenta (Vedomosti.ru 2016).

Auchan has third place. Analysts of the "Renaissance Capital" suggest that Lenta can count on 35 % of the remaining capacity – this will double the chain. A source close to Lenta believes that the numbers are understated by half: "A retailer can open hypermarkets of different sizes and in relatively small cities" (Vedomosti.ru 2016).

In more mature markets – in the France, Britain, Czech Republic or Poland, an average of 1 million residents have 21 hypermarkets. But in Russia the density of the chain should be lower because the density of the population is lower – 9 people per 1 km^2 against 176 in Europe (Vedomosti.ru 2016).

Analysts of "Renaissance Capital" say that acceptable indicators for Russian cities with a population of 300,000 people – about 17 hypermarkets per 1 million residents, or 60 000 people on a hypermarket. It turns out that a little more than 350 stores can be opened in the whole Russia except the two capitals – Moscow and St. Petersburg. All additional hypermarkets risk getting smaller sales per m^2 (Vedomosti.ru 2016). The population density of Russia in 2017 is shown on the map (Figure 16). Sales units will be located more likely in the areas with a high population density. In the sections 6.1.2 and 6.2.2 there are maps of Auchan's and Lenta's presence and there are evident similarities between the location of their sales units and the areas with a high density of population.

Figure 16 – Map of population density in Russia by region in 2017



Source: Statdata.ru, 2017, (person/km^2).

6.1.4 Strategy of Auchan in Russia in recent time

From the marketing strategies mentioned in the theoretical framework of this thesis (Pushkareva 2007), Auchan chose the offensive strategy by the expansion of the product range for medium and premium segments. The management of the company does not want to reduce the volume of cheap products and goods but will try to increase the range (Rambler.ru 2018). Trading chains operating in Russia face a number of problems. First, it is the saturation of the consumer market. If earlier they easily won in competition with small private shops, now large retailers have to fight for buyers already with each other, it is much harder. Secondly, the expansion of trade chains and the aggravation of competition is happening in the same time with declining of customer activity due to a slowdown in the growth of the Russian economy because of the sanctions by Western countries (Rambler.ru 2018).

Unlike Lenta, Magnit, X5 Retail Group and others, Auchan develops and focuses on qualitative changes, not quantitative. By words of the representative of the company "Auchan", Irina Gurskaya informs that trading brands of Auchan will be divided into three categories: "Red Bird", "Golden Bird" and "Green Bird". "Green Bird" will replace the brand "Every Day". Rebranding is planned for 2019-2020 (Retail.ru 2018a).

At the moment, according to Irina Gurskaya, there is an active work on the brand "Red Bird". Under it, the main volume of production will be produced in the middle price segment (Retail.ru 2018a).

"Golden Bird" will be the premium segment. "Undoubtedly, not all categories of goods will be represented in it", Irina Gurskaya said: "Only those where we can offer something innovative" (Retail.ru 2018a).

The launch of delivery of fresh products is planned from the second half of 2018. When the delivery service starts, customers will be able to make orders on the website (Retail.ru 2018a).

Wilhelm Jubner (general manager of Auchan) confirms the change of the strategy towards qualitative changes. Before Auchan opened in Russia from 20 to 30 hypermarkets a year, in 2017, it launched only about 30 stores – mostly small ones. "We reduced the scope in 2016 to take a breath during the crisis", admits Wilhelm Jubner (Inosmi.ru 2017).

The strategy of Auchan is very clever because the company alternates qualitative improvement with geographical spreading. It tries to reflect the reality of Russian economy and abilities of people, it focuses on the right things in the right time. In times of financial problems, in a time of purchasing power decline Auchan works on improving already existing resources, it tries to rise a demand on already existing areas because the opening of new ones with a high probability would face low demand and fail. The choice of location is determined by complex calculations and by a thorough study of the geographical, social and economic context of the region, for example, its infrastructure, connection with other regions, the purchasing power, even gastronomic habits. So, Auchan is located just in more developed regions of Russia. It does not have as many shops as the other top companies, but on the other hand, its every shop is maximally efficient.

6.2 Lenta

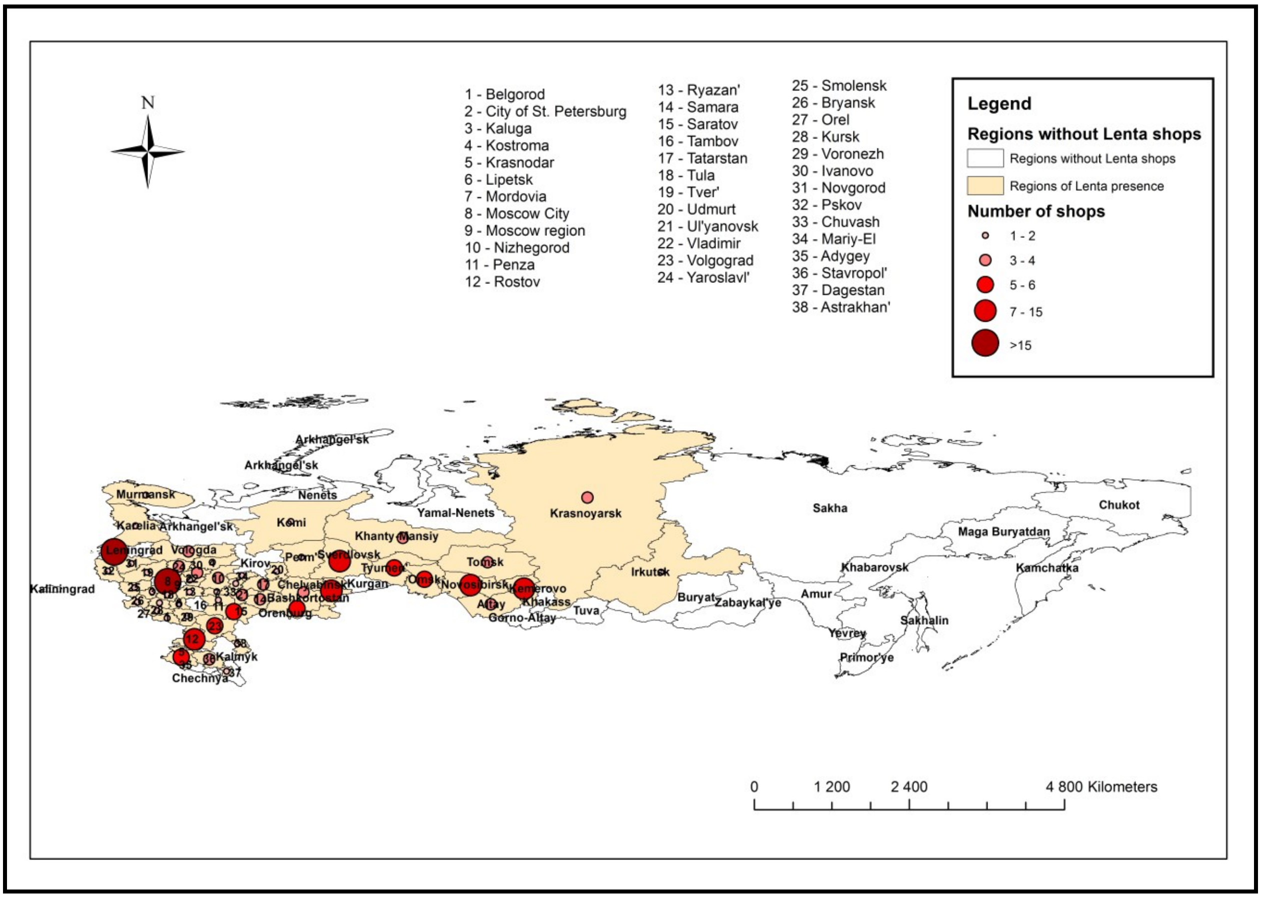
6.2.1 Geography of the presence of Lenta in Russia

In 1999 the first hypermarket under the name "Lenta" was opened in St. Petersburg. In the next seven years, eight more hypermarkets were opened in St. Petersburg. In 1999-2004 company focused on retail with the offer of high-quality products at low prices (Lenta.com 2018b).

The opening of the first hypermarkets outside of St. Petersburg was in 2006: two sales units were opened in Novosibirsk and by one in Astrakhan and Tyumen. The first distribution center was built in St. Petersburg. In 2007, ten more hypermarkets were opened (three of them in St. Petersburg), in 2008 – eight more. In total in 2005-2009 was the growth of the company at the federal level with the opening of 30 new stores in 17 cities of Russia, new distribution centers in St. Petersburg and Moscow. The number of operating hypermarkets has reached thirty-two (Lenta.com 2018b).

In 2009-2017, more than thirty hypermarkets were opened: five in Novokuznetsk, Krasnoyarsk, and Chelyabinsk, three more in Novosibirsk, three in Omsk, Tomsk, Kemerovo, Ivanovo, Barnaul, two in Krasnodar, Nizhny Novgorod, Ulyanovsk, and Yaroslavl, in other cities - by one. Also, "Lenta" appeared on leased areas in existing shopping centers. A second distribution center was built in Novosibirsk (Lenta.com 2018b).

Figure 17 – Geography of Lenta presence in Russia in 2018



Source: Own processing based on data from Lenta.com, 2018c

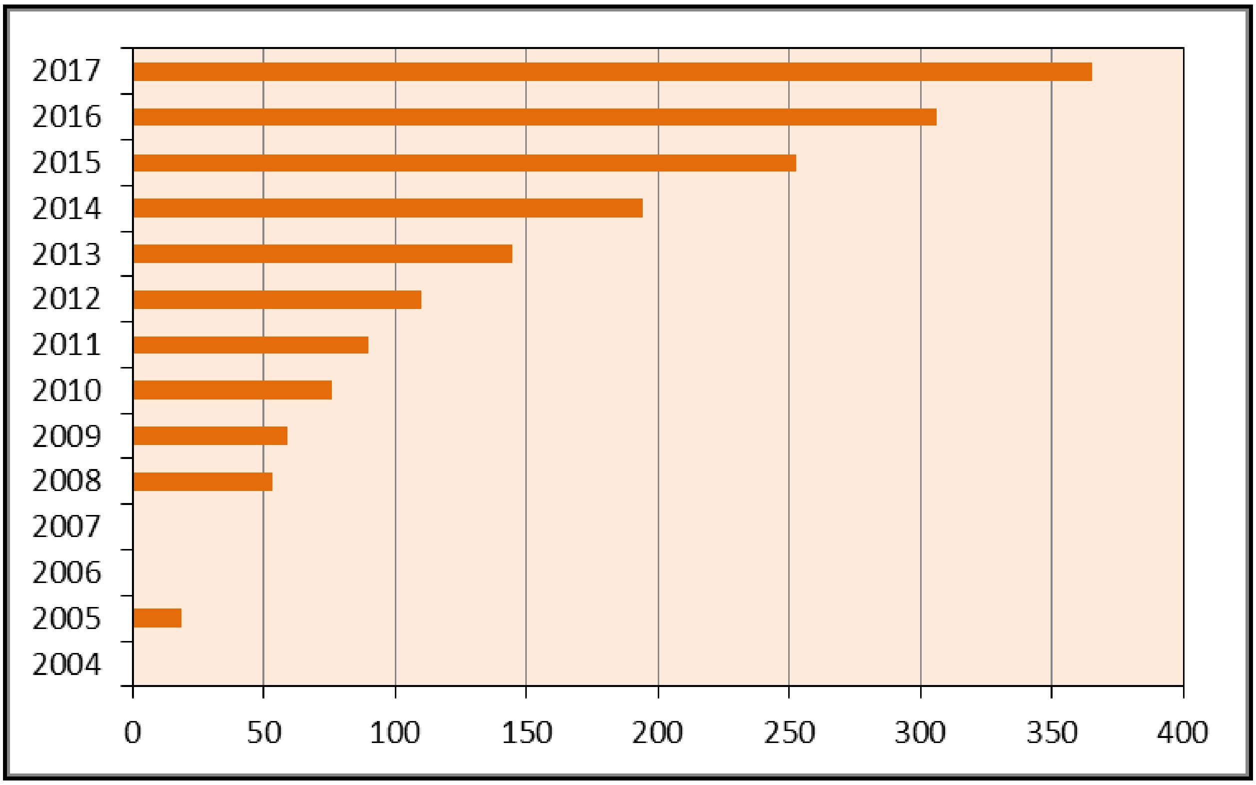
In total St. Petersburg has 54 sales units, second place by number of sales units has Moscow with 53 sales units, third place – Novosibirsk with 11 sales units, Chelyabinsk and Omsk have 6 sales units each, to compare with Magnit in Krasnodar (the origin of Magnit) Lenta has just 3 sales units the same as Auchan. Lenta is concentrated in big cities, where a population is more than 500,000 due to the format of sales units. Indicators of quality of life in cities where Lenta is presented are lower than in cities where Auchan is presented. Before 2016 the tempo of Lenta's expansion by regions of Russia was lower than Auchan's. Most likely this is a consequence of better financial security, bigger experience and an airbag in the form of well-developed chains of Auchan stores in other countries.

The basis of choosing the necessary store format for Lenta is understanding of how and where purchases are made. Careful selection of the optimal location and the availability of several formats allow Lenta to choose the most appropriate type and size of the store, taking into account local specifics. Adaptability allows Lenta to achieve a broad presence in selected cities (Lentainvestor.com 2018).

6.2.2 Revenue of Lenta in Russia

Lenta´s revenues are rising from year to year and the tempo of increase has accelerated considerably during the last years (Figure 18).

Figure 18 – Lenta revenue in 2004-2017



Source: Lentainvestor.com, 2018, Foodmarkets.ru, 2011, Pressreader.com, 2006, Tinkoff, 2018.
*Data in euros and dollars were translated into rubles at the rate of the corresponding year;
*The lack of data for period 1999-2006 except 2005 is due to the inability to find the source of reliable data.
*Data are given in billions of rubles.

Lenta (365,2 billion rubles) has the fourth position by revenue in top ten Retailers in Russia, X5 Retail Group (1.29 trillion rubles) on the first place, Magnit (1,14 trillion rubles) on the second and Auchan (389 billion rubles) on the third (Malls.ru 2018).

Even though the revenue of Lenta is lower than Auchan´s, it has never experienced a decline, whereas Auchan reported a decline in 2016, caused by a drastic decline in the purchasing power of the population – for the first time in Auchan's history in Russia – the second biggest market of the company.

Lenta diligently forms an assortment of fresh quality products taking into account regional specifics and builds partnership relations with local suppliers in every region of the company's presence. This flexibility is one of the main factors in the differentiation of Lenta. The company offers a wide range of exclusive products and constantly develops own brands to increase the price competitiveness of the assortment (Lentainvestor.com 2018).

6.1.4 Strategy of Lenta in Russia in recent time

Lenta focuses on profitable growth, maintaining the optimal ratio of capital investments and the return of investment, high financial indicators and a conservative approach to the level of the debt burden. The company intends to double its trading area in three years, invest in the development of the leaders of "Lenta" (Lentainvestor.com 2018).

The growth strategy of the company is the rapid expansion of the trading chain with the maintenance of an optimal balance of investment and profitability, as well as consistently high financial indicators (Lentainvestor.com 2018).

Strategic priorities of Lenta were defined up to three subgroups (Lentainvestor.com 2018):

1. One of the three largest multi-format trading chains. That means to enter the top three leading multi-format food retailers in Russia and become the largest hypermarket chain in order to maximize the benefits from suppliers and economies of scale in fixed costs.
2. Orientation to profitable growth. The consistent focus on profitable growth, the balance between capital investment and return on investment (GDI at 20 %), in order to maintain the best yield indicators in the market.
3. High financial indicators. Strengthen a stable financial position, adhere to a conservative approach to the debt burden.
4. Investing in management. Conduct an assessment of the needs for professional development and training of 150 middle managers in order to ensure that the employees of Lenta have the necessary skills in the conditions of the company's growth.
5. Double increase in trading area. Double the trading area in four years from 2016 to the end of 2020.
6. New formats. Create new formats for further business growth.

Lenta has also developed a strategy of development for its supermarkets and hypermarkets separately (Lentainvestor.com 2018).

Hypermarkets:

- Increased sales area. Open organically 150-200 thousand m^2 of trading area annually, the long-term market potential in the target cities - about 400 new hypermarkets.
- Planning of chain development. Priority in the medium term - Moscow, St. Petersburg and other large cities; continuation of development in the cities of presence, access to smaller new cities.
- Investing in the future. New investments and the increase of efficiency of the chain to increase return on capital and creation of opportunities for access to small settlements.

Supermarkets:

- Increase the tempo of opening new stores. Increase the number of supermarket openings by increasing their trade area 8 times to 2020 (up to 15-20 % of the total trading area of the company).
- Strengthening of occupied positions. Expand the supermarket chain around existing distribution centers, starting in 2017.
- Increase in the share of own area. The main focus on the lease scheme of development with preservation in the property of 20-30 % of the sales area.

Lenta chose the strategy of development of new segments by Pushkareva (2007). The company pays big attention to the expansion of the trading area and wants to achieve success precisely thanks to the active growth of the number of shops, the introduction of new formats for the possibility of access to smaller settlements. According to the studies I conducted at the beginning, design, and implementation of new formats is a step that Lenta needs for successful future development of the company. People are used to buy products near their homes or work, urban architecture does not allow to build large hypermarkets everywhere, moreover, it is unprofitable. The fact that the Lenta will enter the new regions first allows to gain the loyalty of the customer population. This strategy seems to be very effective but at the same time very costly.

7 Conclusion

The thesis presents a rather detailed description of the most interesting and the biggest retailers in Russia, their location, revenue, number of shops, format etc. It was extremely hard to make even a basic comparison because of the lack of data about retailers. Nevertheless, I believe, this thesis helps to present an approximate picture of the Russian market of grocery retail chains.

At the beginning of my work, I put several hypotheses:

1. Retail chains are concentrated in the Central Federal District of Russia.
2. Retail chains with a larger number of stores grow faster than the ones with less quantity.
3. There are differences in the spatial development strategy between foreign retail chains and Russian in the Russian market.

The first hypothesis was confirmed during the description of retail chains active on the Russian market. X5 Retail Group has 42,9 % of its presence located in the Central Federal District, Auchan – 79,6 %, Dixy – 70,2 %, Metro Cash & Carry – 37 %, only Magnit and Lenta have lower percentage, Magnit has just 24, 9 % of sales units in the Central Federal District and Lenta – 28,6 %. This can be explained by the fact that Magnit and Lenta opened their first stores outside the Central Federal District. Anyway, the whole picture of the location of the biggest retail chains in Russia is that the main region for their development is Central Federal district due to better socio-economic indicators in general, a higher level of infrastructure, a higher level of the labor force, a higher density of population etc. Around one-third of all the sales units of retail chains in Russia are located in the Central Federal District, although the area of the Central Federal District covers just 1/26 of the whole area of Russia.

The second hypothesis was confirmed only partially. In the case of Magnit and X5 Retail Group, it was confirmed. These retailers have the highest tempo of opening new stores and entering new regions, but e.g. Dixy stopped to spread actively due to financial difficulties and even started to reduce the number of existing stores. On the contrary, Lenta with a relatively small starting number of stores, began an active expansion, while Auchan took a pause of opening stores in the new trading areas. It means that the size of a retail chain measured by the number of existing stores does not imply financial success and an active further expansion.

The third hypothesis would need more data for a more accurate answer, but with the example of Auchan and Lenta, I was able to show a fundamental difference in the development strategy of foreign Auchan and the Russian Lenta.

The main difference between Auchan and Lenta is in their business orientation and strategy. Auchan is oriented on lowering of risk. The company is trying to improve their existing chain of stores and the selling environment and mainly concentrates in the European part of Russia. Thus, for foreign retail chains, such as Auchan, in Russia, the West-East gradient (more developed west, less developed east) also works. Lenta is oriented toward the expansion of the chain throughout all the Russian territory. To achieve this goal, Lenta is also focused on the development of new formats, because different regions of Russia have a different level of population density, different cultural background etc. That means, they need at least a different size of sales units, needless to say about products that should be included in the assortment offered.

As a Russian company, Lenta knows the Russian market and culture better, the company purchases 94 % of products within Russia, 21 % from local providers (Lentainvestor.com 2018). I cannot say that Auchan didn't learn to "read" the Russian market after 16 years of presence but still has less products proceeding from Russia – 80 % (Auchan.com 2017). Next, Lenta is not afraid to expand to distant places of Russia, the company actively works with local suppliers, knows how to deal with local authorities. This last remark may be of great importance, considering that Russia ranks 135 place in the world by the Corruption Perception Index, it shows the prevalence of corruption in the public sector (Gtmarket.ru 2018). Unfortunately, in Russia corruption in business can still be a big problem, which may discourage many foreign investors. Despite the fact, there are some measures to reduce and exterminate corruption, they are not effective enough.

The main difference in location between Auchan and Lenta is the fact that Auchan is concentrated in West part of Russia in its European region, and Lenta is concentrated in European part too but also spreads through Russia and has stores in the Asian part of Russia in the East region. For Auchan, it is more customary to work in the European part, because in this region, Russia at least somehow resembles the usual conditions for the company. As I have already told, the European part of Russia is more developed – better infrastructure, better labor force, more opportunities for workplaces, higher incomes, more universities per capita, it has smaller distances between settlements, it has higher density – 68,3 % of population in Russia lives in European part (Statdata.ru 2017).

However, Auchan and Lenta have also something in common. At the moment, both companies are mostly located in big cities that have a population of more than 500,000 people. This can be explained by the format of sales units for which companies are currently focusing. The lower limit of the space of hypermarket is 2,500 m^2. The upper boundary usually ranges from 15,000 m^2 to 20,000 m^2. They need a high quantity of customers to make a profit. Another reason is that big cities have a higher quality of life, so people can afford more and spend more money while shopping.

I was trying to find some fundamental differences between Russian and foreign chains in business, but the reality is simple, all companies are oriented on profit and base their strategy on financial indicators and opportunities, adapting their actions to the economic situation and further development prospects. The only difference is that the Russian chain depends more on the Russian economy because it does not have rear in other countries like has Auchan in developed and economically strong countries.

The Russian market is at its development stage now. With a time, when the market will become mature, retailers' strategies will change. According to Pushkareva (2007), a strategy of expansion will be changed by an offensive strategy, when retailers will need to protect their positions and leaders will take the lead in setting the pace of innovation.

An important role is played by new technologies and the Internet. I'm sure that retail chains will introduce new technologies to optimize work, cut costs and improve the quality of services and products. The Russian market lags behind the European and Internet sales of grocery products are in its beginning, but the trends show that this industry will actively grow.

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